

## Homework 1

ECON203: Macroeconomics 2  
Semester 2, 2019  
Australian Catholic University

Student Name:  
Student ID:

## True/False Questions

Consider each of the following statements. Say whether you believe the statement is true or false. Briefly explain your answer in words. Note that most of the marks will be given for the explanation.

**Question 1.** [20 marks] Mason got promoted with a higher annual salary in Jan 2017, however, he anticipated that he would lose his job in Jun 2017 and remain unemployed for very long time. Assuming consumption-smoothing for consumers. Then savings by Mason increased in Jan 2017 and decreased in Jun 2017.

## Problem Solving Questions

**Question 2.** [80 marks] Consider an economy in which the marginal product of labour  $MPN$  is  $MPN = 309 - 2N$ , where  $N$  is the amount of labour used. The amount of labour supply is  $NS = 22 + 2w + 2T$  where  $w$  is the real wage and  $T$  is a lump-sum tax levied on individuals.

- (a) [20 marks] Explain why an increase in lump-sum tax may increase the amount of labour supply.
- (b) [30 marks] Suppose  $T = 35$ , what are the equilibrium value of employment and the real wage?
- (c) [30 marks] With  $T$  remaining equal to 35, the government passes minimum-wage legislation that requires firms to pay a real wage greater than or equal to 17. What are the resulting values of employment and the real wage.