

EC111 Introduction to Economics: Class Exercises 8 (week 10)

- 1) Labour supply.
 - a) Justine faces a wage rate of £8 per hour, she can freely choose her weekly hours of work and she chooses to work 36 hours. Her wage rate rises to £10 per hour and she increases her working hours to 38 per week. Draw these situations on a diagram.
 - b) With the wage at £10, the government imposes a lump sum tax of £76 per week. Justine decides to work 40 hours and she says that in this new situation she is just as well off as in (a) above before the wage increase. Calculate the income and substitution effects of the original wage increase.
 - c) Draw on a diagram Justine's labour supply curve and calculate her labour supply elasticity.
- 2) "When a union is formed and raises the wage rate in an industry, workers will be attracted to that industry, so wages in non-unionised industries must rise" Examine this statement when:
 - a) There is no monopsony in the labour market.
 - b) There is monopsony in the labour market.