Chapter 4 Project

Labor and Financial Markets

Purpose

This chapter taught you about demand and supply in labor and financial markets. All people interact with both markets, usually as suppliers of labor in labor markets and as both *suppliers* (savers) and *demanders* (borrowers) of funds in financial markets.

The purpose of this exercise is to help you relate labor and financial markets to your own life.

Directions

This exercise has two parts. In the first, you will construct your own supply curve for labor under changing circumstances. In the second, you will consider your current and future role in financial markets.

Part 1 - Your Supply of Labor

1. Create a table showing possible wages in the left column and hours of work *per week* in the right column.
    a. For each of the wages given, fill in the table to show how many hours *you* would currently be willing to work at each wage. (To make this exercise work, you need to choose some number of hours greater than zero for every wage above $0.)
    b. Then, graph the individual labor supply curve that you have created. Be sure to label each axis!
2. Now, suppose that the wage is $10. How many hours of labor would you be willing to supply at this wage?
3. There are 100 people exactly like you in the labor market (including you). Fill out a table and graph the **total** supply of labor.
4. How many hours of labor will the total market supply at a wage of $10 per hour? How much money will you earn per week? How much will the total labor supply earn per week?
5. Now, suppose that the government passes a law setting a minimum wage of $15. How many hours of labor would you be willing to supply at this wage? How many hours will the total market supply?
6. As wages rise, the quantity demanded of labor will fall. Suppose that at the $15 minimum wage, firms demand only half of the labor that is supplied at that wage.
    a. If you still have a job, how much will you earn?
    b. Since half of all workers will lose their jobs, what will be the total earnings in the labor market now?
    c. Explain the effect of a minimum wage on (1) workers who still have jobs, (2) workers who are laid off, and (3) the total earnings of all workers.

Part 2 - Exploring Financial Markets

Most college students take out some student loans.

1. In financial markets, are students the demanders or suppliers of financial capital?
2. If interest rates rise, are students likely to take out more or fewer student loans?
3. If the return on a college degree falls, are students likely to take out more or fewer student loans?
4. Briefly explain the difference between questions (2) and (3) in terms of what has happened in financial markets.
5. Most young people are borrowers in financial markets because their earnings are relatively low as compared to their future earnings, and they need things like cars and education and houses that they have not had time to save up for. As you get older and your income rises, your income may exceed your spending. Then, you will have savings. At that point in your life, will you be a demander or supplier of financial capital?
6. If interest rates fall, what will happen to the amount of financial capital that you borrow or save?
7. During the global financial crisis, the Federal Reserve decreased interest rates to close to zero. One reason why the Fed did this was to encourage firms to borrow funds to expand and to hire more workers. However, this also had an effect on savers.

   Briefly explain how the Fed's actions would affect you if you were a borrower and if you were a saver. Why do you think that the Fed was willing to take this action?

Checklist

Part 1

- ☐ Consider hours of labor based on wage.
- ☐ Construct your individual supply curve.
- ☐ Construct total market supply curve.
- ☐ Examine changes in labor supply from changes in minimum wage.
- ☐ Explain effects of minimum wage.

Part 2

- ☐ Identify the role of students in financial markets.
- ☐ Consider decisions based on change in financial markets.
- ☐ Explain effects of the Federal Reserve's actions.