1. a. A case study in chapter 6 discusses the federal minimum wage law. Assume the minimum wage is set above the equilibrium wage in the market for unskilled labor. Using a supply-and-demand diagram of the market for low-wage (unskilled) labor, show the actual wage paid, the number of workers who are employed, and the number of workers who are unemployed. Also show the total wage payments to unskilled workers.

b. Now suppose the Secretary of Labor proposes an increase in the minimum wage. What effect would this increase have on employment? Does the size of the change in employment depend on the elasticity of demand, elasticity of supply, both elasticities, or neither?

c. What effect would this increase in the minimum wage have on unemployment? Does the size of the change in unemployment depend on the elasticity of demand, the elasticity of supply, both elasticities, or neither?

d. If the demand for unskilled labor were inelastic, would the proposed increase in the minimum wage raise or lower total wage payments to unskilled workers? Would your answer change if the demand for unskilled labor were elastic?

2. The U.S. administers two programs that affect the market for cigarettes. Media campaigns and labeling requirements are aimed at making the public aware of the dangers of cigarette smoking. At the same time, the Department of Agriculture maintains a price support program for tobacco that raises the price of tobacco above the market equilibrium price.

a. How do these two programs affect cigarette consumption? Use a graph of the cigarette market to support your answer. For this problem, assume that tobacco and cigarettes are the same market

b. What is the combined effect of these two programs on the price of cigarettes?

c. Cigarettes are also heavily taxed. What effect does this tax have on cigarette consumption?
3. | Price per frisbee | Quantity demanded | Quantity Supplied |
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a. What are the equilibrium price and quantity of frisbees?

b. Frisbee manufacturers persuade government that frisbees improve scientists’ understanding of aerodynamics and thus frisbee production is important for national security. A concerned Congress votes to impose a price floor $2 above the equilibrium price. What is the new market price? What are the quantity demanded and supplied at this price? How many frisbees are actually sold?

c. Irate college students march on Washington and demand a reduction in the price of frisbees. Now, an even more concerned Congress votes to repeal the price floor and imposes a price ceiling $1 below the former price floor. What is the new price? How many frisbees are sold?

d. After a landslide election of “affordable frisbee” candidates to Congress, the frisbee price ceiling is lowered to a more affordable level of $7. What is the new price in the market? At this price, what are the quantity demanded and the quantity supplied? What is the quantity sold?

4. Lovers of classical music persuade Congress to impose a price ceiling of $40 per ticket to make classical music more affordable. Does this policy get more or fewer people to attend classical music concerts? Explain.

5. Read the article by Thomas Sowell at the link for HW6 and then answer the following questions:

a. Use a supply and demand graph to show a market for hotel rooms in equilibrium at $40.

b. Now show the effects of a hurricane that destroys some homes and some hotels in the market area.

c. If an anti-price-gouging law prevents the price of hotels from rising above $40, what situation will result?

d. What two examples does Sowell cite to show how a higher market price creates the incentives for hurricane victims to cooperate in solving the problem in a way that makes economic sense? Add a third example from your own reflection on the problem. Is there a conflict here between “economic sense” and your idea of fairness? Explain.
6. Suppose the federal government requires beer drinkers to pay a $2 tax on each case of beer purchased. (In fact, both federal and state governments impose taxes on beer, making it one of the most heavily taxed goods in U.S. history.)

   a. Draw a supply-and-demand diagram of the market for beer without the tax. Show the Price paid by consumers, the price received by producers, and the quantity of beer sold.

   b. Now draw a supply-and-demand diagram for the beer market with the tax. Show the price paid by buyers, the price received by sellers, and the quantity of beer sold. What is the difference between the price paid by buyers and the price received by sellers? Did the tax cause the quantity of beer sold to increase or decrease?

   c. The price elasticity of demand for beer is estimated to be about 0.8. Do buyers or sellers bear a greater burden of a tax on beer? Explain.

7. If the government places a $500 tax on luxury cars, will the price paid by consumers rise more than $500, less than $500, or exactly $500? Explain.

8. The FICA tax funds Social Security programs. Congress established a 15.3% FICA tax rate; by law, the tax burden is split 50-50 between employer and employee. So, 7.65% of the employee’s earnings on each paycheck is deducted for FICA taxes, and 7.65% of the employee’s earnings is paid in FICA taxes by the employer. In the aggregate, labor demand is more elastic than labor supply. Is the economic incidence of the payroll tax shared equally by employer and employee? Explain.