

# **Intermediate Macroeconomic Theory**

Economics 232-002

Summer, 2008

## **Assignment #4**

- 1) Do Problems #8, 9, 10 Chapter 4 (page 137)
- 2) Suppose that a person initially pays no taxes and has no non-wage income. Is it possible for an individual's wage to increase and have his consumption fall? Explain how the income and substitution effects can produce this.
- 3) Suppose that a person initially pays no taxes and has no non-wage income. Is it possible for an individual's wage to decrease and have his leisure fall? Explain how the income and substitution effects can produce this.
- 4) Suppose that a person initially pays no taxes and has no non-wage income. Suppose that he receives a wage of \$10 per hour for working any amount up to 8 hours per day, but receives an overtime wage of \$5 for any hours he works in excess of 8 hours.
  - a) Draw the consumer's budget constraint and show his optimal choice of consumption and leisure.
  - b) Show how the worker would respond to an increase in his overtime wage to \$8.