Exercise 2  
6/9/2009

1. How would each of the following likely affect the demand of unskilled workers on an automobile plant assembly line?

   a. The plant management introduces new assembly-line methods that increase the number of cars unskilled workers can produce per hour.

   b. Robots are introduced to do most basic assembly-line tasks.

   c. The workers unionize.

2. How would each of the following factors be likely to affect the economywide supply of labor?

   a. Social security benefits are made more generous.

   b. War preparations lead to the institution of a national draft, and many young people are called up.
3. Skilled and unskilled workers can be used to produce a small toy. Initially, assume that the wages paid to both types of workers are equal.

a. Suppose that electronic equipment is introduced that increases the marginal product of skilled workers (who can use the equipment to produce more toys per hour worked). The marginal products of unskilled workers are unaffected. Explain, using words and graphs, what happens to the equilibrium wages for the two groups.

b. Suppose that unskilled workers find it worthwhile to acquire skills when the wage differential between skilled and unskilled reaches a certain point. Explain what will happen to the supply of unskilled workers, the supply of skilled workers, and the equilibrium wages for the two groups. In particular, what are equilibrium wages for skilled workers relative to unskilled workers after some unskilled workers acquire training?