

TAVUA COLLEGE

YEAR 13 ECONOMICS

WEEKLY HOME STUDY PACKAGE - WEEK 5 (02/08/21 – 06/08/21)

SOLUTIONS

1.

- a. Substitution effect means that as real wages increase, workers increase the quantity of labour supplied. This is because workers want to earn more and as wage rate increases workers substitute work for leisure (that is spend more time working than on leisure). Income effect means that increase in income tends to make workers supply less labour so they can spend the higher income on leisure. As workers are already earning high wage rate, they want to spend their time on leisure rather than working.

(2 marks, 1 mark for substitution effect, 1 mark for income effect)

- b. Level of employment (in terms of quantity of labour)**

12 000 workers. This will be the same as the level of demand at the given wage rate.

Level of Voluntary Unemployment (in terms of quantity of labour)

$18\ 000 - 12\ 000 = 6\ 000$ workers

Level of Involuntary unemployment (in terms of quantity of labour)

Zero, that is, Supply of labour minus Demand for labour at the given wage rate. All those who are willing to work are able to find employment.

(1 mark each, 3 marks)

- c. Level of employment (in terms of quantity of labour)**

8000 workers. This will be the same as the level of demand at the given wage rate.

Level of Voluntary Unemployment (in terms of quantity of labour)

$18\ 000 - 16\ 000 = 2\ 000$ workers

Level of Involuntary unemployment (in terms of quantity of labour)

$16\ 000 - 8\ 000 = 8\ 000$ workers

(1 mark each, 3 marks)

2. Research work will be discussed during Zoom class.