Questions you should be able to answer after doing the reading and attending class

1. What is meant by the term opportunity cost? Looking back at the basic assumptions underlying the market perspective, which one addresses the concept of opportunity cost? What is the opportunity cost of the time you are spending in this class?

2. When individuals are making a labor supply decision, what goods are they deciding between? What determines the shape of their utility curve? What determines the position of the utility curve that gives their actual hours of work?

3. Which one is true? A) People prefer to be on a utility curve that is as far away from the origin as possible. B) People prefer to be on a utility curve that is as close to the origin as possible. Justify your choice.

4. What determines the slope of the budget constraint?

5. Why does the income effect make people work less?

6. If someone’s wages increase, will they work more or less? Be able to give your answer in terms of the income and substitution effects.

7. Be able to answer the following questions and to justify your answer:
   a. Which changes with the income effect, the slope or the position of the budget constraint?
   b. Which changes with the substitution effect, the slope or the position of the budget constraint?

8. What does the point of tangency between the individual’s utility curve and budget constraint tell us?

9. What is a “reservation wage”?

10. Use the Purchased Goods/Produce at home model to predict what would happen if a working pregnant woman gave birth to triplets instead of the single birth she expected.

11. Picture a household with two earners. One of them gets a large raise. If the hours of work of the other also increase, are they complements or substitutes in home production? Use the income and substitution effects to analyze your answer.

12. Define own price elasticity of supply. Define cross-price elasticity of supply.