### Some Simple Applications

#### Labor Supply and Demand

- **Demand for Labor**
  - Permanent Increase in Demand for Labor: $w^+ H^-$
  - Temporary Increase in Demand for Labor: $w^+ H^+$
  - Permanent Decrease in Demand for Labor: $w^- H^+$
  - Temporary Decrease in Demand for Labor: $w^- H^-$

#### Summary

- **A Recession**
  - People know there is a temporary decline in GDP.
  - Wage rate down, hours down.
A War

• There is a sharp, temporary increase in defense spending, paid for by additional taxes.

• Consumers know the taxes will not last forever. Consumption goes down but only by a fraction of the tax increase.

• Demand for workers goes up.

People know the increase in military spending will not last forever

Wages up, hours of work up
A Drought

- This drought will not last forever, but there is a reduction in the demand for laborers.

People know there is a temporary decline in GDP.

Wage rate down, hours down.

New Technology

A permanent increase

People work fewer hours, but get a higher wage rate
Any Temporary Increase in Government Spending

• We want to spend money to get us out of a recession.
• The government pays for the additional spending by borrowing.
• Let’s ignore the impact the borrowing has on consumption.

A Permanent Increase in Government Spending

• The government decides to spend on a new program, which will continue for a long time.
• It raises taxes to cover the cost.
• The reduction in consumption demand will offset the increase in government spending.
A Permanent Increase in Government Spending

**No net effect**

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End

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