

**April 5<sup>th</sup>, 2005**

**Homework #1 : Due Tuesday, April 19<sup>th</sup> in Class  
Macroeconomics II  
Ethan Kaplan and Heather Congdon-Fors**

- (1.) Assume two types of workers: low and high productivity. Write down a simple model of composition bias with endogenous labor supply. Show that real (shadow or actual) wages decline during recessions for all workers even though the average measured real wage increases. Be creative! (5 points)
- (2.) Do Problem 5.2 of Romer (3 points)
- (3.) Do problem 5.3 of Romer (4 points)
- (4.) Do problem 9.3 of Romer (3 points)
- (5.) Do you find the efficiency wage theory of unemployment plausible as an explanation for involuntary unemployment? Why or why not? (Bonus: 1 point)

\* Note: Total possible number of points: 15 (Bonus points are added only if total homework points at the end of the semester are less than total possible points: i.e. less than 60/60).