**AEB 3281 Agricultural Macroeconomics Homework #1**

*Please complete five of the following seven problems. Each problem is worth 20pts. Show your work to receive full credit!*

1. **Consider an economy described as follows:**

Y=C+I+G.

Y=8,000.

G=2,500.

T=2,000.

C=1,000+2/3 (Y−T).

I=1,200−100 r.

* 1. In this economy, compute private saving, public saving, and national saving.
	2. Find the equilibrium interest rate.
1. **Consider the economy in problem #1 but where government spending is reduced by 500.**
	1. Compute private saving, public saving, and national saving.
	2. Find the new equilibrium interest rate.
2. **Suppose under our simple system the government decides to decrease government spending.**
	1. Graph the result with real interest rate “r” on the vertical axis and investment and savings on the horizontal axis.
	2. Explain (using words) the process behind the adjustment in equilibrium.
3. **Suppose that an increase in consumer confidence raises consumers’ expectations of future income and thus the amount they want to consume today. This might be interpreted as an upward shift in the consumption function. How does this shift affect investment and the interest rate?**
4. **When was the last time the United States had a budget surplus? Why do you think it had a budget surplus? (Please cite the source of your information).**
5. **Minimum Wage Laws**
	1. What is the government minimum wage law?
	2. How can the minimum wage law be effective in one market and ineffective in another?
	3. Are there any drawbacks to an effective minimum wage law?
	4. In 2008, how many of the approximately 76 million people paid hourly wages were paid the federal minimum wage?
	5. How many states currently have minimum wages above the federal minimum wage?
	6. What state has the highest state minimum wage?
6. **Labor Market**
	1. Draw the labor supply and demand graph for Florida and Pennsylvania with the current minimum wage in those states as the equilibrium.

* 1. Suppose the federal government raises the new minimum wage to $8.00. Represent this change in the graphs from part a.
	2. What are the results of this increase in minimum wage in both states?