

Chapter 1

1. Students who lean to “yes” on this may say that money allows the purchase of the goods and services required to lead a happy life. Hopefully, they use a very broad definition of goods and services. Students who lean to “no” on this may riff on some variation of the money cannot buy happiness idea. Also they may bring in that other measures like wealth and consumption should be consulted in determining happiness.

<u>Assets</u>		<u>Liabilities</u>	
House	\$450,000	Mortgage	\$150,000
Car	25,000	Car loan	5,000
Stocks	100,000		
Checking account	<u>2,000</u>		
Total assets	\$577,000	Total liabilities	<u>\$155,000</u>

$$\text{Net Worth} = \$577,000 - \$155,000 = \$422,000$$

The \$2,000 in the checking account is the only money she has (students may have forgotten why the balances in checking accounts are considered part of the money supply).

After saving \$5,000 by investing in stocks:

<u>Assets</u>		<u>Liabilities</u>	
House	\$450,000	Mortgage	\$150,000
Car	25,000	Car loan	5,000
Stocks	105,000		
Checking account	<u>2,000</u>		
Total assets	\$582,000	Total liabilities	<u>\$155,000</u>

$$\text{Net Worth} = \$582,000 - \$155,000 = \$427,000$$

After using the \$5,000 to pay off the car loan:

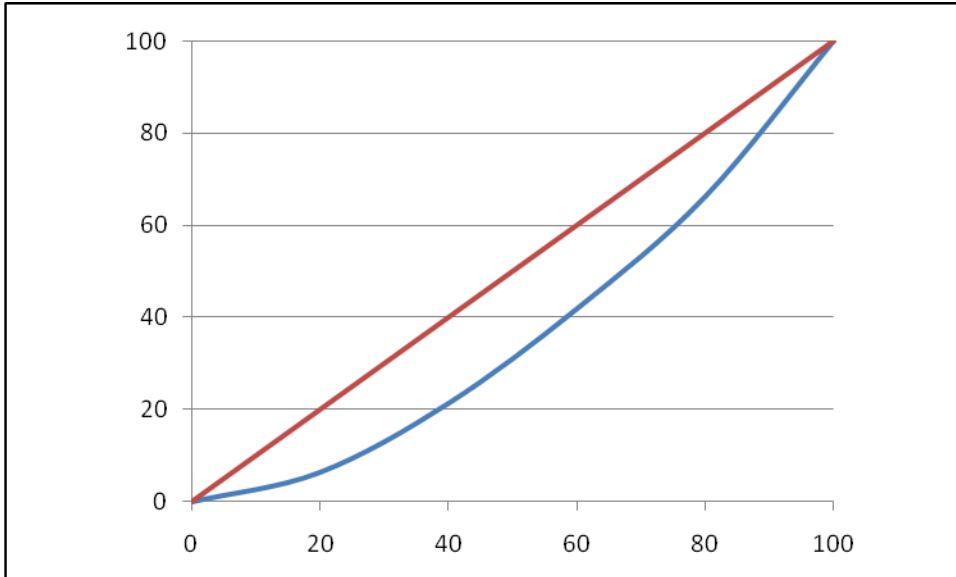
<u>Assets</u>		<u>Liabilities</u>	
House	\$450,000	Mortgage	\$150,000
Car	25,000		
Stocks	100,000		
Checking account	<u>2,000</u>		
Total assets	\$577,000	Total liabilities	<u>\$150,000</u>

$$\text{Net Worth} = \$577,000 - \$150,000 = \$427,000$$

3. Students should order the numbers from smallest to largest, compute total income, divide into five quintiles and compute the income in each quintile.

		Income by Quintile	
Lowest Quintile	15000		
	25000		
	35000	75000	
Second Quintile	45000		
	60000		
	70000	175000	
Third Quintile	75000		
	80000		
	85000	240000	
Fourth Quintile	90000		
	95000		
	100000	285000	
Highest Quintile	110000		
	135000		
	150000	395000	
Total Income		1170000	

	Quintile Income as Percentage of Total	Cumulative Distribution
Lowest Quintile	6.41%	6.41%
Second Quintile	14.96%	21.37%
Third Quintile	20.51%	41.88%
Fourth Quintile	24.36%	66.24%
Highest Quintile	33.76%	100.00%



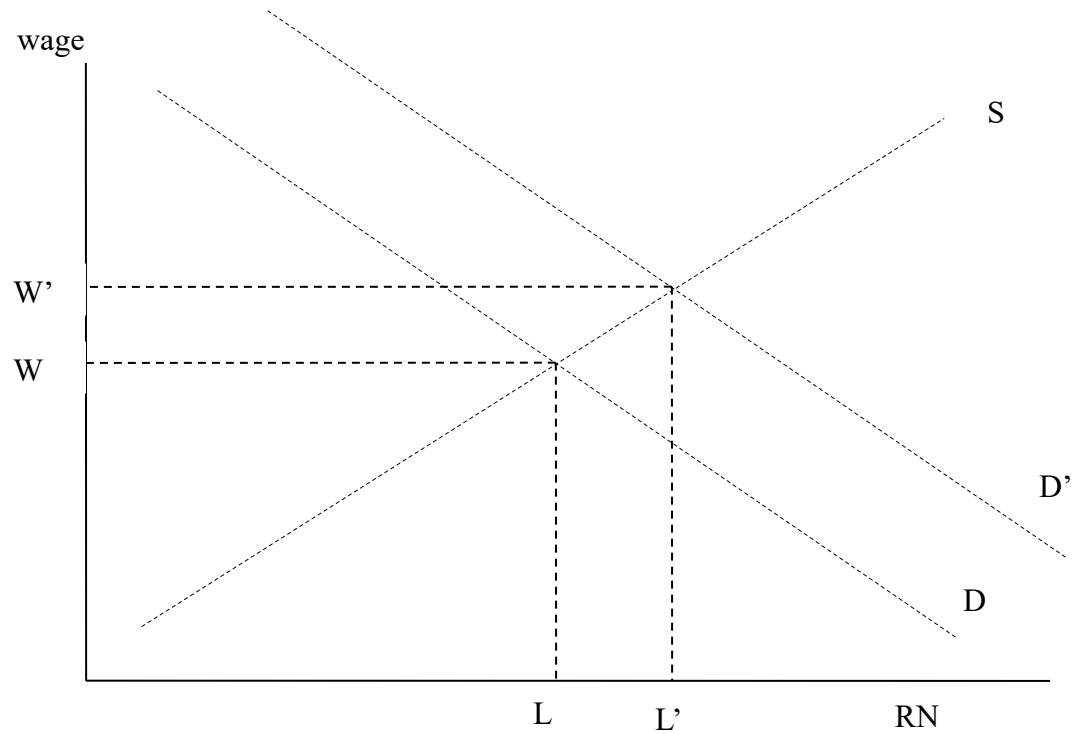
Computation of Gini coefficient:

		Formula	Area Under Lorenz Curve
Lowest Quintile	6.41	"1/2*20*6.41"	64.10
Second Quintile	21.37	"1/2*20*(6.41+21.37)"	277.80
Third Quintile	41.88	"0.5*20*(21.37+"41.88")"	632.50
Fourth Quintile	66.24	".5*20*(41.88+66.24)"	1,081.20
Highest Quintile	100.00	".5*20*(66.24+100)"	1,662.40
Total Area under Lorenz Curve			3,718.00
Area under 45 degree line			
		".5*100*100"	5,000.00
Gini coefficient			
	" 1 - (Area under Lorenz Curve)/(Area under 45 degree line)		0.2564

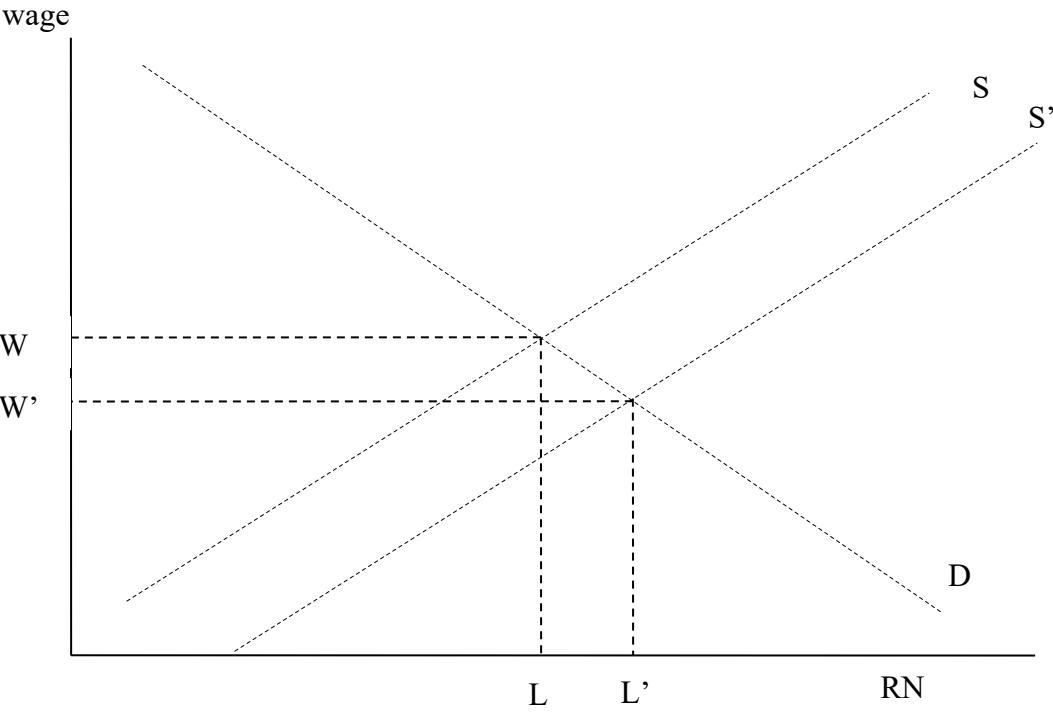
4. Their computation should be done like question 3 except they make use of real data. The real data starts with the percentage in each quintile.

Chapter 2

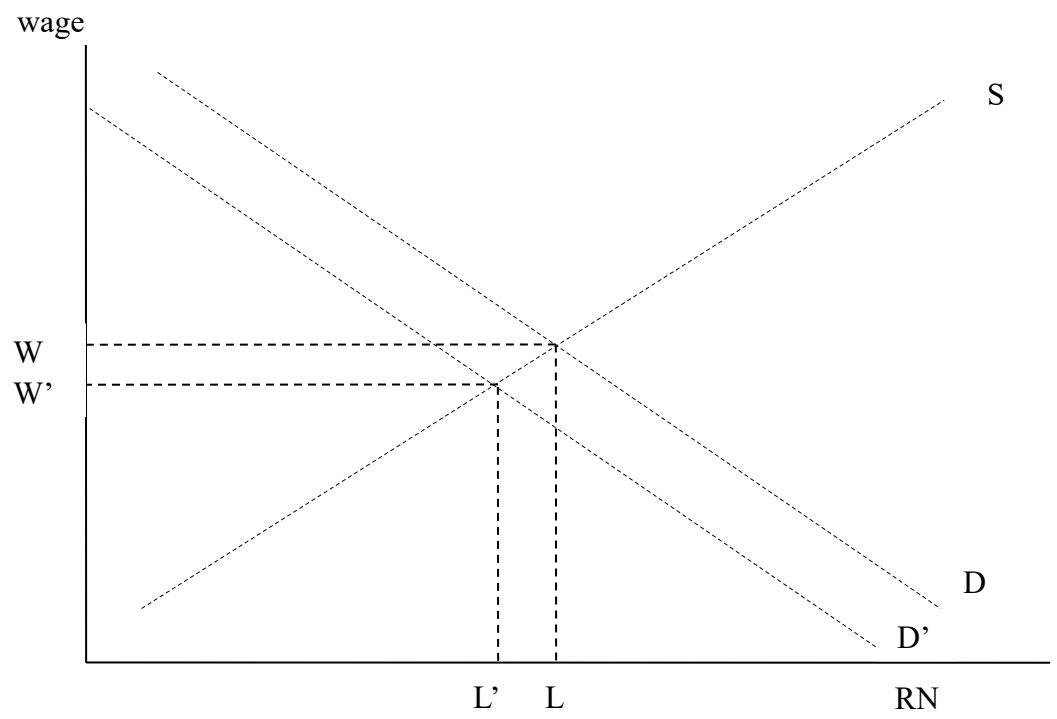
1. A plausible story can emphasize either worker or employer actions. In the case of surpluses either workers offer to work for less or employers make lower wage offers. In the case of shortages, either employers raise their wage offers or workers demand higher wages. In equilibrium, every worker can find a job at the going wage and every employer can fill a vacancy at the going wage. No one has any reason to raise or lower wage offers.
2. A.



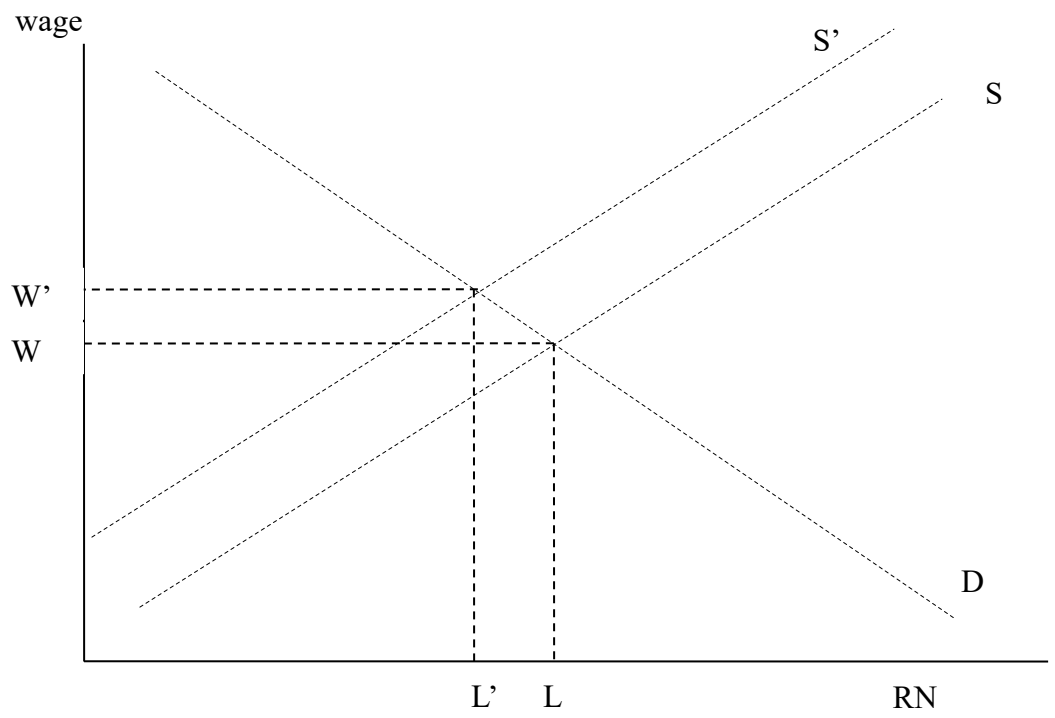
b.



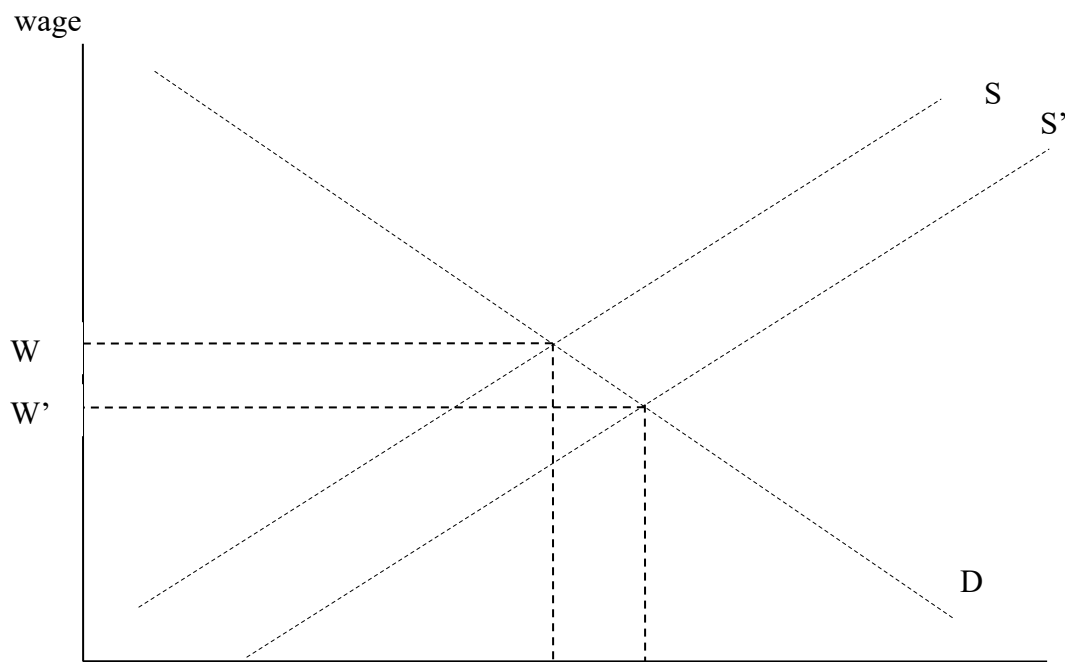
c.



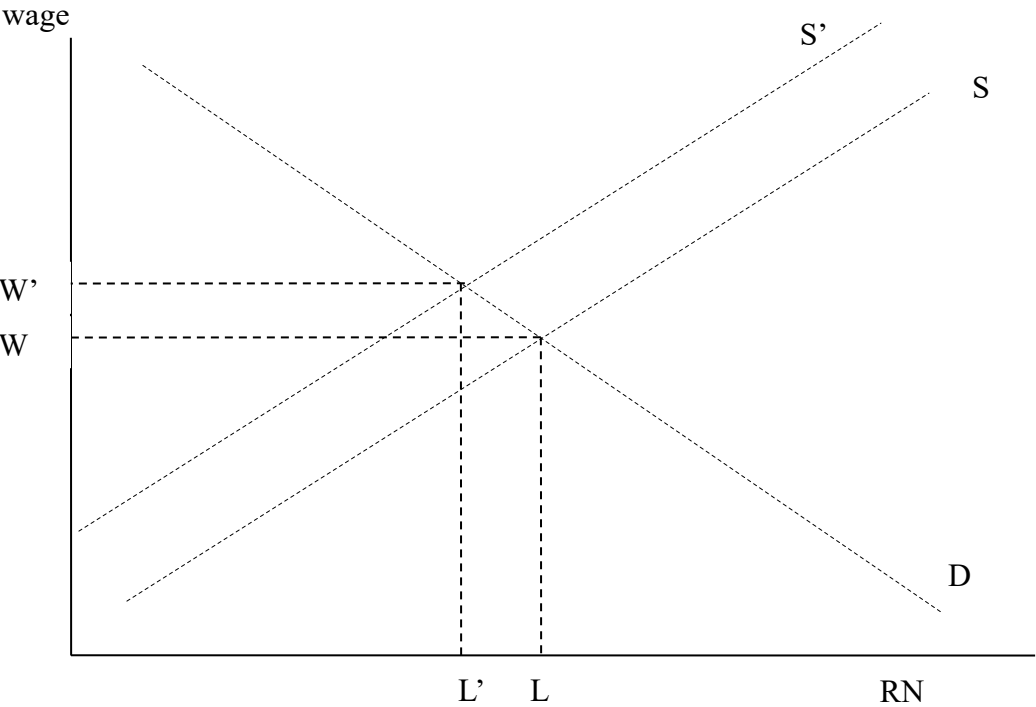
d.



3.
a.



b.



c.

