Chapter 12 Selected Answers

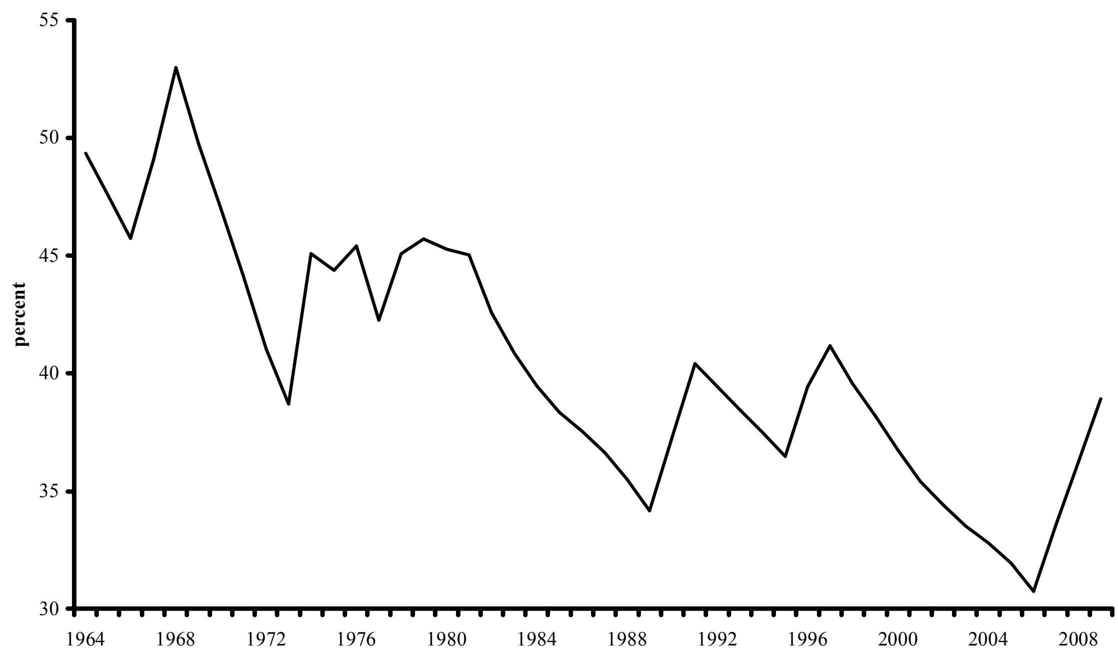
Problem 12.1:

(a) U_{2008} = 4.2 percent; PR_{1998} = 49.3 percent.

(b) EI_{1999} = 101.9.

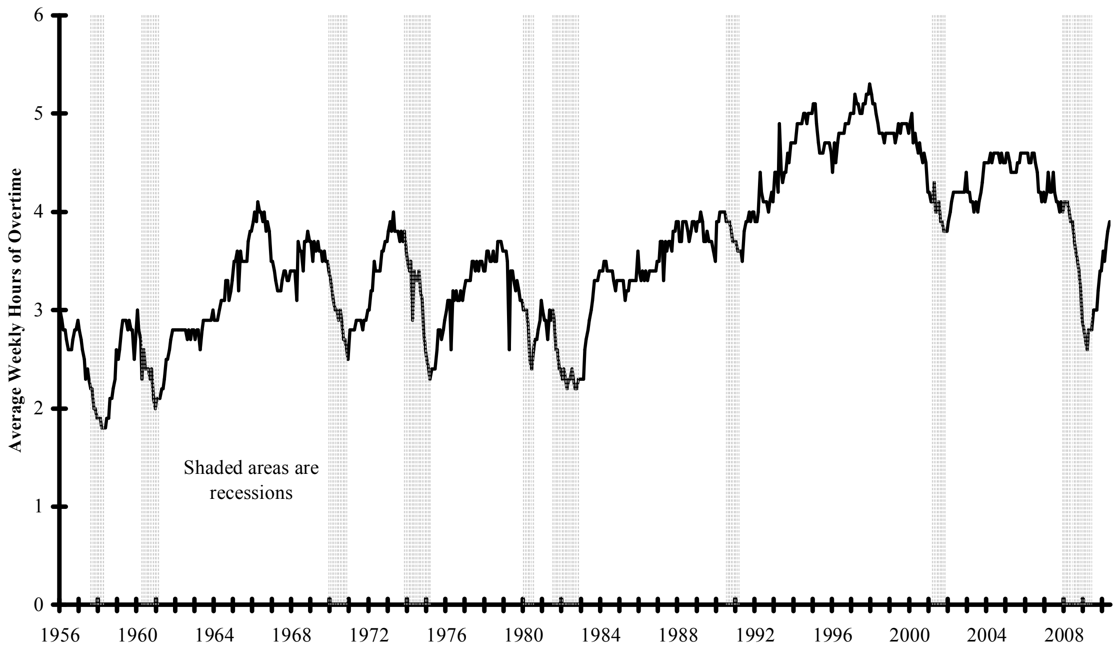
Problem 12.3: Figure 12.3.1 shows that the minimum wage has trended down as a share of the average hourly wage rate over more than forty years. (The upward spikes correspond the points at which the minimum wage rate is raised by changes in the law. But notice that each spike is typically lower than earlier spikes, confirming the overall downward trend.) The fact that the minimum wage rate has fallen compared to the average hourly wage rate also suggests that a smaller proportion of workers are subject to the minimum wage, thus reducing its importance over time.

Figure 12.3.1
The Minimum Wage Rate as a Share of the Average Hourly Wage Rate



Problem 12.5: Figure 12.5.1 refers. Overtime hours varied without a clear trend around 3 hours per week until the early 1980s, trended upwards throughout the 1980s and 1990s, reaching a peak of 5.3 hours per week in 1997, and have declined substantially since then. Typically, overtime hours peak in mid-expansion, fall gently and then fall sharply during recessions, only to recover rapidly after the business cycle trough.

Figure 12.5.1
Overtime and the Business Cycle



Problem 12.9: Figure 12.9.1 refers. The sample is relatively short. The diffusion index clearly rises in expansions and falls sharply in recessions. The 1990s and post-2001 expansions differ, however, in that the diffusion index remains below 50 percent during the entire post-2001 expansion. The cyclical pattern is consistent with Figure 12.12. That figure shows that job creation falls in recessions and that job destruction rises sharply latter in recessions. Unemployment would thus be expected to rise sharply in recessions – as indicated in Figure 12.9.1 by the collapse of the diffusion index and even to linger, as job destruction persists into the early stages of recovery. This too is shown by the fact that the diffusion index picks up only well into the recovery. The behavior of the diffusion index is also consistent with the fact that job destruction *in manufacturing* consistently exceeds job expansion in the long term, as employment shifts to other industries. That trend would account for the below 50 percent diffusion index in the post-2001 period.

Figure 12.9.1
Diffusion of Manufacturing Unemployment and the Business Cycle