

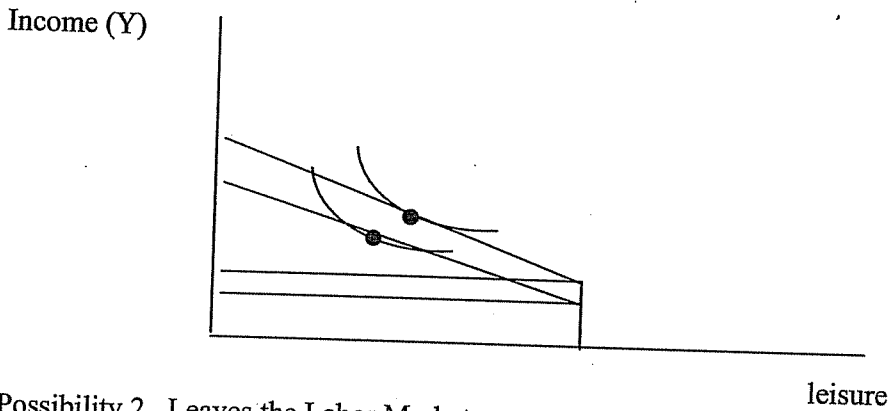
Question 1

Sue is currently working 40 hours per week at a wage rate of \$15 per hour. Sue also has \$40 of non-wage income per week. Her employer decides to institute a uniform cleaning fee of \$100 per week. Does this affect her hours of work choice? If so, does she work more or less?

Answer

Since there is only an income effect, she will work more hours if she continues to work or she will drop out of the labor market. Given the small size of the fixed cost, it is most likely that she will stay in the market and work more hours.

Possibility 1. Works More



Possibility 2. Leaves the Labor Market

