

1. (15 points) When it comes to assisting the working poor, economists generally prefer expansions in Earned Income Tax Credit to raises in the minimum wage. Briefly explain this preference. Now recall the topic of tax incidence from earlier in the semester. Why might economists who support the EITC favor a minimum wage that *equals* the market equilibrium wage prior to an expansion of the EITC?

2. (10 points) We discussed three political philosophies (utilitarianism, liberalism/Rawlsian, and libertarian) that pertained to income redistribution. Briefly summarize each position with respect to income inequality. Separately explain whether each philosophy advocates a complete equalization of income.

3. (15 points) Economists like to believe that a primary role of government is to eliminate or reduce the impact of market failures. Below are a number of federal government programs. Consider (with a brief explanation) what if any market failure has prompted government intervention. If a significant market failure does not seem to exist, why do you think the program is around?

- A. National defense
- B. Agricultural incentives to let land lie fallow (i.e., unplanted)
- C. Temporary Assistance to Needy Families (i.e., welfare block grants)
- D. The system of courts (hint: think Coase)
- E. The space program
- F. The Department of Justice Antitrust Division
- G. The Environmental Protection Agency
- H. Grants to universities
- I. Subsidies to the mohair industry (mohair was used in Korea-War-era army uniforms)

4. (15 points) Over the past 25 years, wages for domestic low-skilled labor have not kept pace with wages for high-skilled labor and have actually declined over some periods of time. Three possible explanations for this phenomenon are technology, immigration, and foreign competition. Graphically show how each explanation would affect the low-skill labor market. Which explanation(s) are consistent with the observed decline in the amount of low-skill labor?

5. (10 points) Our government is subject to the will of the people, and people can (if they so desire) donate to charities that alleviate poverty. Some argue that this potential for private charitable giving implies that the government's antipoverty programs must be against the popular will and should therefore be abandoned. Counter this argument with an economic (not moral or emotional) defense of government efforts to reduce poverty.