1. Continuing from the questions on Homework 1, suppose the following Earned Income Tax Credit (EITC) scheme is put in place. For those whose earned income is less than $500 per week the government gives 40 cents on every dollar earned. For those who earn more than $500 the government gives them $200 per week. Based on the answers to question 2 of the first homework (i.e. ignore overtime), how does this affect the labor supply and earnings of Johnny and Jenny? Explain your answers.

2. Consider the following proposed changes to the current Social Security earnings test (i.e. from the one we discussed in class) and determine if the changes lead to higher hours of work among retirees.
   a. A change in the amount of exempt labor earnings from $17,000 to $25,000.
   b. The government would reduce benefits by 50 cents for every dollar earned above $25,000 rather than 33 cents as discussed in class.

3. Suppose Jack’s wage rate is $20 and that he can produce $10 per hour of household “goods”. Suppose Jill’s wage rate is $30 and that she can produce $15 per hour of household “goods”. Who should specialize in the market sector? Suppose now, Jack’s wage goes up to $25 per hour. How does this affect the answer?

4. Suppose the government grants $2500 per child to households that have more than 2 children. How would this affect fertility?