1. Page 85, exercise 10: It is commonly taught in introductory microeconomics courses that minimum wages cause unemployment. The Federally mandated minimum wage is $5.15, but approximately 1/3 of states have higher state-mandated minimum wages. Why can’t you test the “minimum wages causes unemployment” theory by simply comparing unemployment rates across states with different minimum wages? Can you think of a better way to test it?

2. How could a tax rate increase that leads to a deficit reduction possibly cause an increase in the growth rate of the economy?

3. Page 119, exercise 14: How do you think population growth affects the degree of “generational balance” in government finance?

4. Page 149, exercise 15: Two firms are ordered by the federal government to reduce their pollution levels. Firm A’s marginal cost associated with pollution reduction is $MC = 20 + 4Q$. Firm B’s marginal cost associated with pollution reduction is $MC = 10 + 8Q$. The marginal benefit of pollution reduction is $MB = 400 - 4Q$.

   a. What is the socially optimal level of each firm’s pollution reduction?

   b. Compare the social efficiency of three possible outcomes: (1) require all firms to reduce pollution by the same amount; (2) charge a common tax per unit of pollution; or (3) require all firms to reduce pollution by the same amount, but allow pollution permits to be bought and sold.