

Homework 2

1.

Apply the classical theory of income distribution to predict the effect on the real wage and the real rental price of capital if the following events happen:

- (a) An earthquake damages part of the capital stock.
- (b) The government raises the retirement age.
- (c) Inflation raises all prices (output price and factor-input prices) by 10%.
- (d) A technological breakthrough improves the production function (suppose the production function is labor-augmenting).
- (e) Following (d), what if the production function is capital-augmenting.

2. Suppose that every year in Shanghai, 2% of married couples get divorced and 3% of single adults get married. Define a steady state, and what would be the steady-state percentage of single people in the adult population?