

Answers to Homework #10

Please try questions 17.8, 17.9, and 17.13 on page 512 of the textbook.

Answer to 17.8

See pages 494-498 for the discussion of how wages can differ. Compensating wage differentials accounts for the difference in salaries between engineers and elementary school teachers. Differences in human capital investments explain the differences in the earnings of high school teachers and college professors and between doctors and lawyers. Differences in ability account for the differences in the wages of basketball superstars and their coaches.

Answer to 17.9

No, because the characteristics of jobs differ. Jobs that are more pleasant will pay less than those that are unpleasant.

Answer to 17.13

The demand for investment measures the desired rates of investment at alternative interest rates, and the supply of savings measures the desired level of savings at various interest rates. The intersection of the two curves equates the desired rate of investment with the desired rate of saving. If the government puts a ceiling on the interest rate, then the desired rates of saving are lower than the desired rates of investment. The amount of investment undertaken in the wake of the ceiling would be less than the investment that occurred in equilibrium.

Answer to (2)

The present value of \$90,000 a year for 10 years at an interest rate of 10% is \$553,011.04.