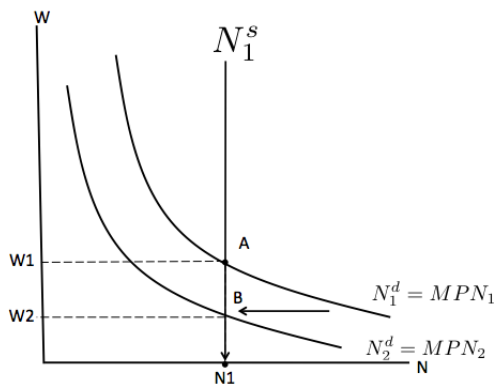
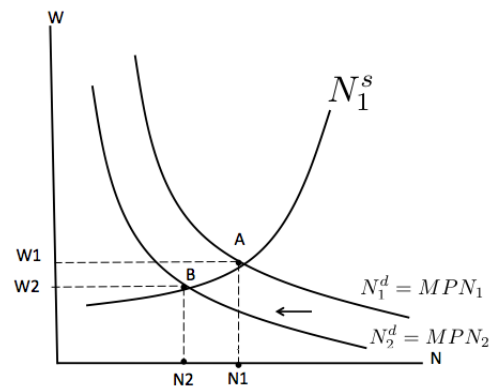


- If $SE = IE$, N^s ..constant.. : $SE = IE$, N^s is perfectly inelastic.



- If $SE > IE$, N^s ..decreases.....

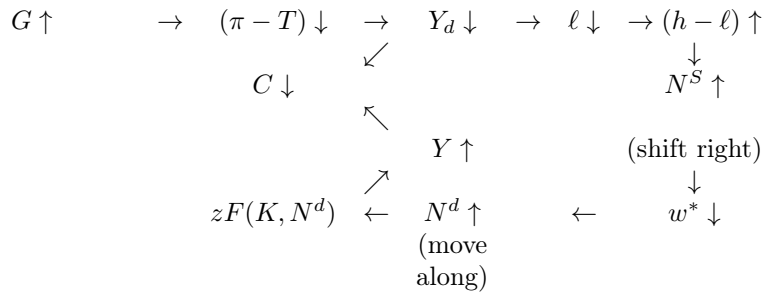


- If $SE < IE$, N^s ...increases..... [we do not consider this case since the labour supply curve will have a downward slope.]

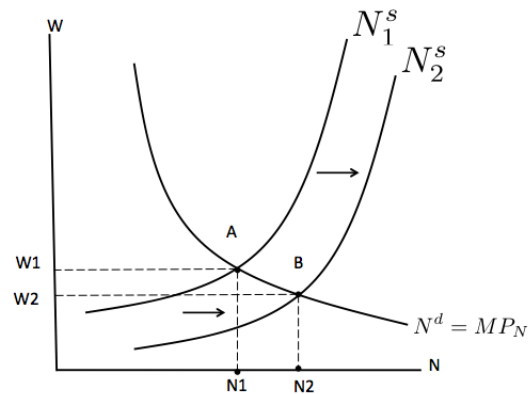
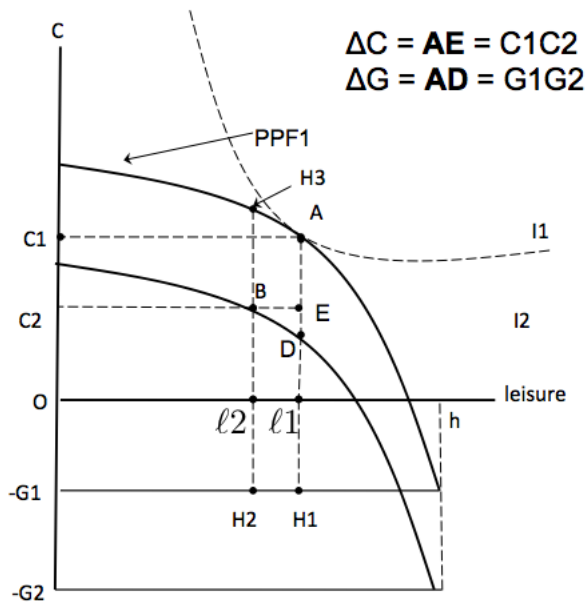
[See the solution for problem set 3.]

- Note: In my opinion, the graph for labour market is a little tricky. We analyze a general equilibrium where the consumer is the owner of the firm. When TFP(total factor productivity) changes, firm's profit changes. This must affect labour supply somehow. When we analyze the model by using graphical illustration, the effect on the labour market is unclear. However, the mathematical appendix of the textbook shows us how the model is derived. When it becomes sequence of equations, all the solutions are clear. It can be proved that real wage decreases when TFP decreases (real wage increases when TFP increases).

3. An increase in G or an increase in T ((Balanced budget constraint: $G = T, \Delta G = \Delta T$)).



$$\begin{aligned}
 |\Delta C| &< |\Delta G| \\
 \Delta C &= \Delta Y - \Delta G
 \end{aligned}$$



- The **decrease in consumption** (the distance $C1C2 = AE$) is **smaller than the increase in government spending** (the distance $G1G2 = AD$).
- $Y \uparrow$ but $C \downarrow$. Private consumption is **crowded out** by government purchases.
- This means that when government increases its spending, the firm produces more. The government's share in total output increases while the consumer's share in total output decreases.

[See the solution for problem set 3.]

4. An decrease in G or an decrease in T ((Balanced budget constraint: $G = T, \Delta G = \Delta T$). [Self Practice]