Social Welfare 553

Problem Set Four

1. i. Name a social cost of education that is also not a private cost.
   ii. Name a social benefit of education that is also not a private benefit.

2. Frank, Chapter 17, number 9

3. A minimum-wage worker in Yoursistan earns $5/hour, which, in the opinion of the newly elected president, is not nearly enough to raise a family on. Madame President is particularly concerned about children in single-parent families and promised in her campaign to raise incomes of single-parent families to at least $70/day. On average single parents now work 8 hours per day.

   As her policy adviser, you’re asked to give an opinion on two plans. Plan A is for a $5 wage supplement for every hour worked, bringing wages up to $10/hour. Plan B is for a flat $30/day transfer.

   i. Draw the possibility frontier associated with each plan.
   ii. Which plan do you advise her to accept? Why?

4. Frank, Chapter 18, number 13

5. Imagine that you are the director of Health and Human Services for a state with very low unemployment among nurses but very high unemployment among the kind of young, low-skilled workers who generally work in minimum wage jobs.

   At your executive staff meeting, the analysts in your public agency present a cost-benefit analysis of whether the state should open up care facilities for the elderly. Such a system would involve hiring 4,000 nurses and 4,000 minimum wage assistants over the course of a year.

   Skimming over the report, you notice that the costs are listed for nurses at $29/hour (the current average wage including benefits) and assistants at $11/hour (current minimum wage plus benefit cost). You speak up and tell the budget analysts that their figures are likely accurate for the nursing assistants but underestimate the cost of hiring the nurses. Explain why you made this insightful comment. Use graphs of the labor markets for nurses and minimum wage workers.