

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points) What is the problem facing Social Security? How would increasing the retirement age reduce the problem? Would you raise the retirement age if you were in Congress? Why or why not?

2) (25 points) What is the problem facing Social Security? (Type this part again because I grade Question #1 at a different time than Question #2.) How would increasing the return on the Social Security Lock Box reduce the problem? How do you increase the return? Would you try to increase the return if you were in Congress? Why or why not?

3) (10 points each) For each of the following events, tell me what happens to the labor force participation rate and the unemployment rate. Explain how you know what happened. If the unemployment rate changed, tell me which type of unemployment (frictional, structural, cyclical, or seasonal) is affected and why you chose that category. If you are making any assumptions, state the assumptions and why that assumption makes sense.

- A) John used to be a stay-at-home dad. His children are in school so he decides to look for a job.
- B) A steel worker in this area has been unemployed for so long, he quits looking for a job.
- C) Jane dislikes her boss, so she quits.
- D) A lifeguard for an outdoor pool in this area when the fall comes.

4) (15 points) What is the value for full employment in the USA? Why isn't full employment considered to be 0% unemployment?