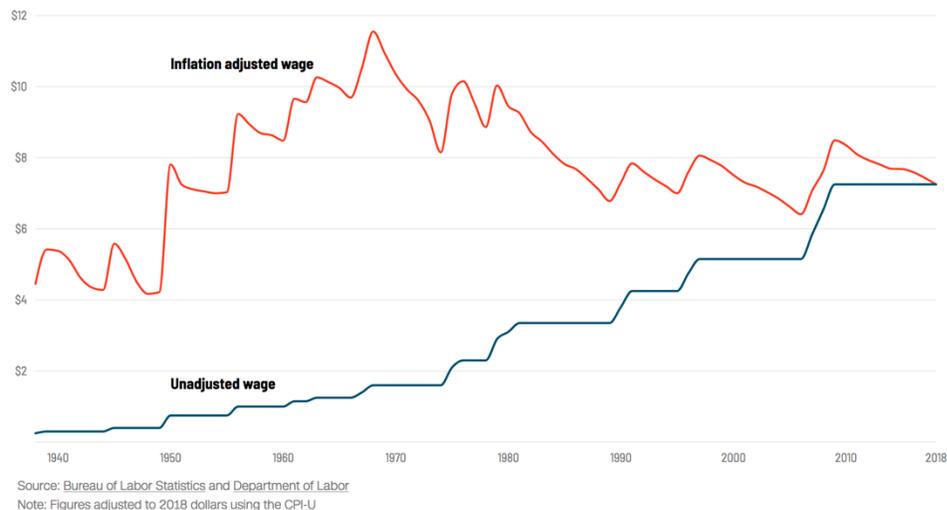




## ECO 1311, University of Dallas Inflation-- Practice Problems

1. The chart below shows the history of the US minimum wage in both real and nominal terms.



- a. Which series should be labeled “real minimum wage” and which series should be labeled “nominal minimum wage”?
- b. Which series should be used in thinking about whether US minimum wage policy provides a just living wage? Why?
- c. Marcos found a detailed analysis that illustrated how the minimum wage increase that occurred around 1980 created a minimum wage level that did in fact provide a just living wage while also balancing the need to keep wages low to support businesses. Marcos examined the chart above and noted that since the wage has increased 3 times, almost doubling the 1980 level, then the current minimum wage policy may also be assumed to provide a just living wage. Is Marcos assessment correct? Why or why not?
- d. After the COVID-19 recession, the US decides to aggressively pursue pro-growth policies. These policies lead to 3-5% average annual price inflation. However, politicians argue that this inflation is nothing to worry about because with economic growth comes increased employment and wages. Thus, everyone

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Some problems have been extracted and/or adapted from:

- Cowen, Tyler, and Alex Tabarrok. *Modern principles of microeconomics*. Macmillan International Higher Education, 2015.
- Acemoglu, Daron, David Laibson, and John List. *Economics, global edition*. Pearson, 2015.
- Miller, Roger LeRoy. *Economics Today: The Micro View*. Pearson, 2018.

should be better off in the long-run. What part of the argument related to minimum wage is the politician strategically neglecting?

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