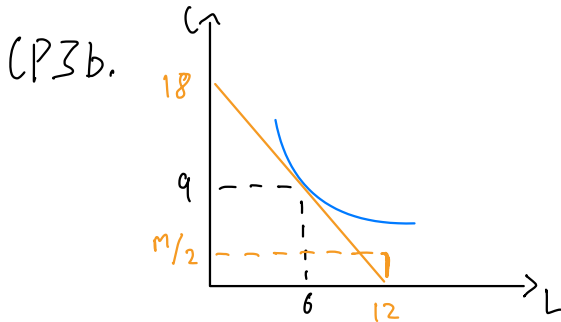
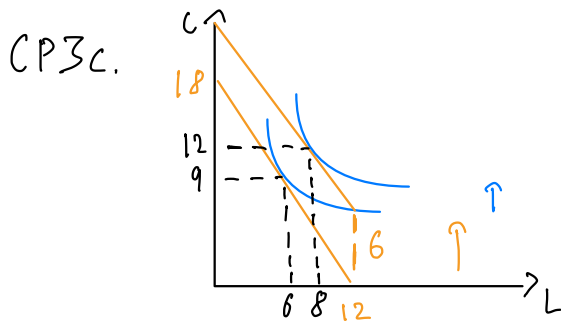


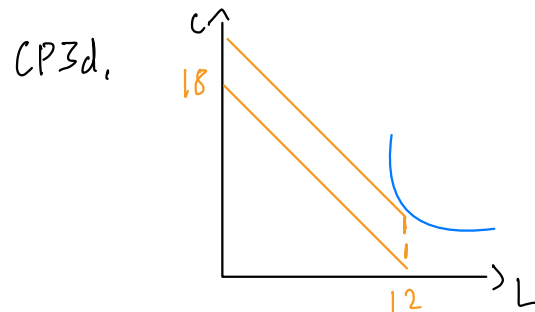
Today's Topic: Labor Supply



the nonlabor income must reach the IC to make it enough to replace labor. we know  $u(6, 9) = 54$  here, and that  $u(12, \frac{m}{2})$  must equal 54 as well.  $12 \cdot \frac{m}{2} > 54 \rightarrow m > 9$ .



can get 6 extra units of consumption everywhere.  $c = m/2 = 12/2 = 6$ ;  $L = 12$ ;  $u(\text{no work}) = 12 \cdot 6 = 72$ .  
 how much does he work? tangency method:  $\frac{c}{L} = \frac{w}{p} = \frac{3}{2}$   
 $2c = 3L$ ,  $wL + pc = wT + m \rightarrow 3L + 2c = 48 \rightarrow L^* = 8, c^* = 12$ .  
 more leisure, less work!



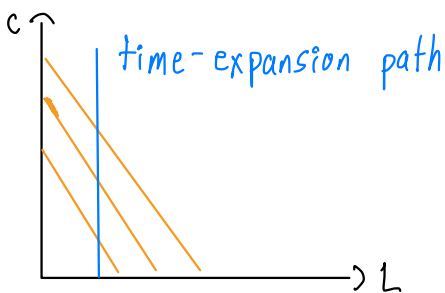
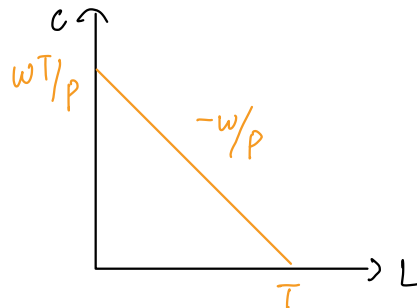
for what value of  $m$  will IC fall off of budget line?  
 $wL + pc \leq wT + m \rightarrow 3L + 2c = 36 + m = 6L$   
 $6 \cdot 12 = 36 + m \rightarrow m = 36$ .

CP6.

$$u = 4\sqrt{L} + c$$

$$MRS = \frac{2}{\sqrt{L}} = \frac{w}{p} \rightarrow 2p = w\sqrt{L}$$

$$L^* = (2p/w)^2 \quad c^* = \frac{wT}{p} - \frac{4p}{w}$$



if ivan had more time, he'd work more!  
 from extra hour, he gets  $\frac{w}{p}$  extra consumption.  
 so to buy that hour costs  $\$w$  to be profitable.