Child Care
(1) Suppose that the government passes a law providing fixed payments covering child care expenses for parents with young children. Assume child care costs are fixed.
   (a) What is the effect of the new law on labor force participation of parents with young children who initially abstain from the labor market? Explain fully and show graphically.
   (b) What is the effect of the new law on labor hours supplied by parents with young children who are already in the labor market? Explain fully and show graphically.

Income Maintenance Programs
(2) Consider a standard income maintenance program which consists of an income guarantee, a benefit reduction rate and a break even level of income i.e., a maximum income beyond which workers are no longer eligible for support. Assume that for those eligible for the income maintenance program, non-labor income is zero. Assume also that leisure is a normal good.
   (a) Starting from a situation in which no income maintenance program is available, show graphically the effects of an income maintenance program which provides an income guarantee of $I_g$ dollars, and a benefit reduction rate of 100%.
   (b) What is the break level of even income?
   (c) Between the income guarantee and the break even level of income, what is the net wage rate?
   (d) What is the effect of the income maintenance program on hours worked? Explain fully and show graphically. In your explanation, be sure to discuss the possible income and substitution effects of the program. Also, be sure to show all possible outcomes.
   (e) What is the effect of labor force participation? Explain fully.

(3) Now suppose that the income guarantee is increased to $I'_g > I_g$.
   (a) What is the break level of even income?
   (b) Between the income guarantee and the break even level of income, what is the net wage rate?
   (c) Show graphically the effects of the increased income guarantee on the budget constraint. Be sure to indicate the level of guaranteed income, the break even level of income and the net wage rate on your graph.
   (d) What is the effect of the increase in the income guarantee on hours worked? Explain fully and show graphically. In your explanation, be sure to discuss the possible income and substitution effects of the program. Also, be sure to show all possible outcomes.
   (e) What is the effect of labor force participation? Explain fully.
   (f) How do the results in this case compare with those of the previous case?
   (g) How does the increase in the income guarantee effect the costs of the program and the number of people eligible? Explain fully.

(4) Now suppose that instead of increasing the income guarantee, the benefit reduction rate is lowered to $0 < r < 1$.
   (a) What is the break level of even income?
   (b) Between the income guarantee and the break even level of income, what is the net wage rate?
   (c) Show graphically the effects of the decrease in the benefit reduction rate on the budget constraint. Be sure to indicate the level of guaranteed income, the break even level of income and the net wage rate on your graph.
   (d) What is the effect of the decrease in the benefit reduction rate on hours worked? Explain fully and show graphically. In your explanation, be sure to discuss the possible income and substitution effects of the program. Also, be sure to show all possible outcomes.
   (e) What is the effect of labor force participation?
   (f) How do the results in this case compare with those of the previous case?
   (g) How does the decrease in the benefit reduction rate effect the costs of the program and the number of people eligible? Explain fully.