**Economics of Income Distribution – Quiz 3**

1. Labor share is falling in the US as we discussed in the class. A particular explanation is cheap capital, i.e. low interest rate. If cheap capital replaces labor, this would explain why the labor share is falling. Why is this explanation wrong?

(Hint: We discussed this in the class. See also Barkai (2016), page 32-33-34, that you can find at my Avesis web page.)

1. The figure below is from Autor et. al. (2017). You can find the essay at my Avesis web page. The title of the essay is “Concentrating on the Fall of the Labor Share.” Explain why this data suggests that the falling labor share is due to super star firms.



1. Assume that the demand function is $Y=P^{-ϵ}$. Ünveren and Sunal (2015) estimate $ϵ$ for Turkey. According to our results $ϵ=7/3$. (The title of our essay is “Why is the labor share so low in Turkey?”)
2. What is the price markup in Turkey if $ϵ=7/3$?
3. What is the profit share in Turkey if $ϵ=7/3$?