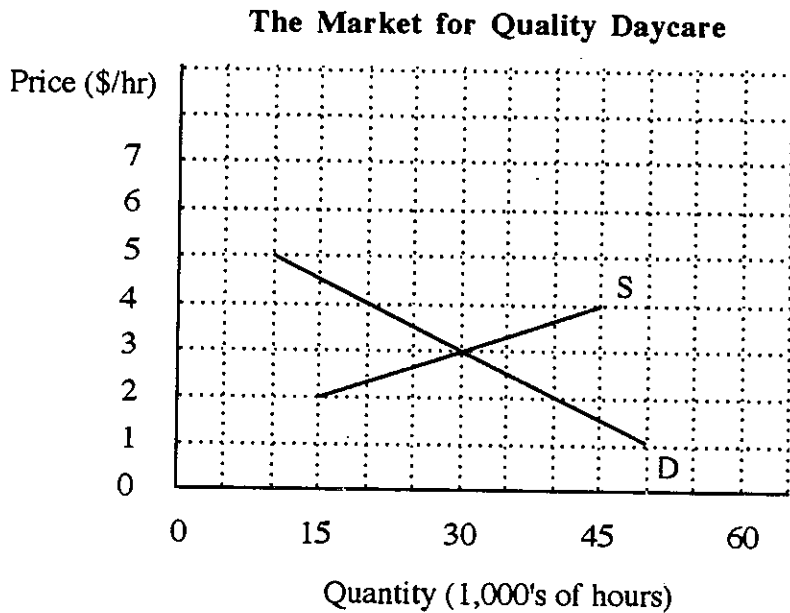


Homework Problem #15 The Market for Quality Daycare

PRINT YOUR NAME _____
(LAST) (FIRST)

During the period from 1970 to 1993, the labor force participation rate of married women with children under the age of six increased from 30.3% to 60%. One of the byproducts of this trend is what has been described as a shortage of affordable, quality daycare. Assume the current market for quality daycare is represented in the supply and demand curves given below.



I. Current Equilibrium

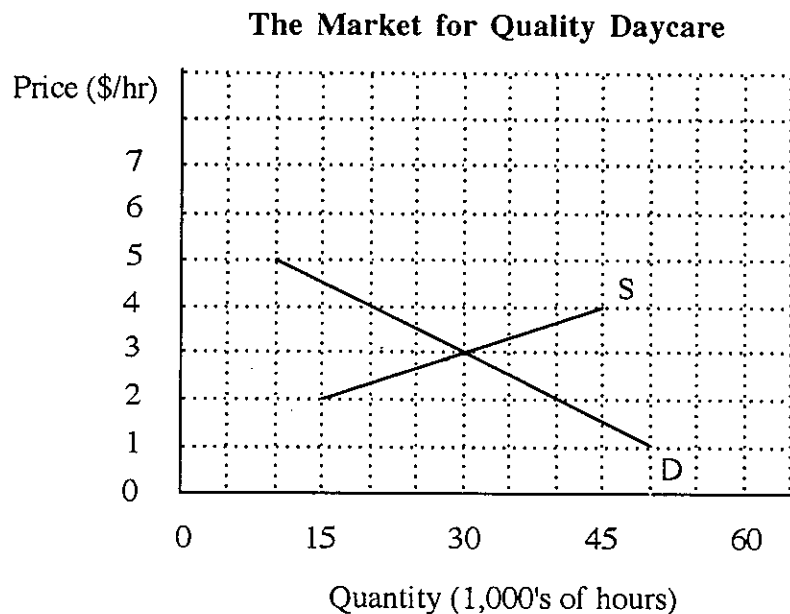
The equilibrium price of quality daycare per hour is \$_____, and the equilibrium number of hours provided is _____. For there to be a shortage of "affordable" daycare occurring, the "affordable" price must be (less than/greater than/equal to) the equilibrium price.

II. Policy Analysis

A number of policies have been proposed to address the issues of affordability and quality in the daycare market. Let us employ supply and demand analysis to evaluate a few of these proposals. (Hint: A lack of affordable daycare does not mean that the daycare market is not currently in equilibrium.)

A. Policy One

In order to make quality daycare more affordable, the government mandates a ceiling price of \$2.00 per hour. Indicate on the graph below the impact of such a policy and answer the following questions.



When the price is set at \$2.00 per hour, the quantity supplied will be _____ thousand hours and the quantity demanded will be _____ thousand hours.

1. Compare the initial equilibrium quantity supplied to the new policy induced quantity supplied. The difference is _____ thousand hours. Where did these hours of child care go? Why?
2. Who is better off as a result of this policy? Why?
3. Who is worse off as a result of this policy? Why?

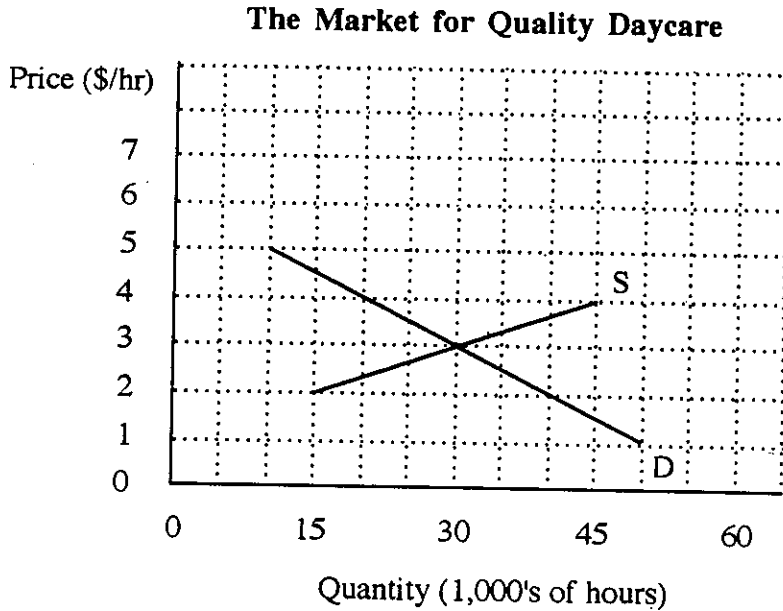
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B. Policy Two

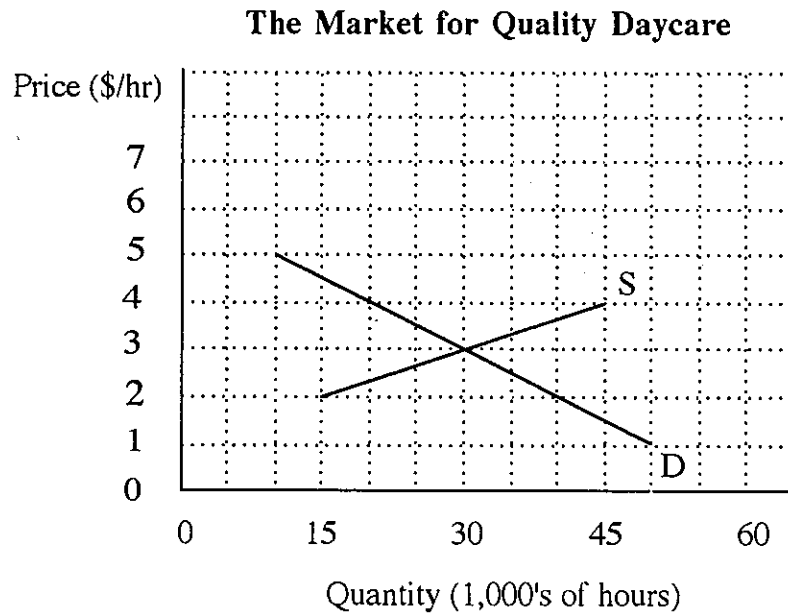
Policy Two calls for the provision of significant tax breaks to quality daycare providers as well as a decrease in the licensing requirements associated with daycare provision. Indicate on the graph below the impact of this policy on the supply of quality daycare.



1. As a result of Policy Two, equilibrium price (increases/decreases/remains constant) and equilibrium quantity (increases/decreases/remains constant).
2. Who is better off as a result of this policy? Why?
3. Who is worse off as a result of this policy? Why?

C. Policy Three

Under Policy Three the government subsidizes the provision of child care in the following manner: It agrees to reimburse the parent 50% of the cost of daycare. Indicate on the graph below the impact of such a subsidy on the demand for child care, and answer the following questions.



1. As a result of Policy Three, equilibrium price (increases/decreases/remains constant) and equilibrium quantity (increases/decreases/remains constant).
2. Who is better off as a result of this policy? Why?
3. Who is worse off as a result of this policy? Why?

PRINT YOUR NAME _____
(LAST) (FIRST)

III. Conclusions

Imagine for the moment that you are an economist who has been hired to evaluate the policies discussed above. Which (if any) would you recommend for adoption? Why?

What other policies, including "do nothing," might you recommend to deal with the problem of affordable quality daycare? Why?