Use the remaining class time to complete Task 6B in the *ToDo* sheet. **Save your workbook when finished.**

So, what impact does increasing the spread of job offers have on the optimal number of offers?

You all correctly pointed point that n\* rises when X rises, but as I was looking at your answers, I thought that asking, “Why does this happen?” would make for a good test question.

But then common sense got ahold of me so don’t worry, but I thought I’d write this up instead of writing something like this on every paper—it’s easier to just do ✓+ and have you read this.

On your answer to this question, many of you repeated what I said in class that increasing X increases the spread, which is true, but I didn’t tell you what else it does and this unmentioned effect is the real explanation for why n\* rises as X rises.

Several of you provided numbers (nice) and showed how average net pay was maximized at a higher n when X rose (holding c constant). This is not an explanation of *why* this is happening, merely a clear statement of the effect.

A few of you went a little further and made statements about why the X elasticity of n\* (ponder this) is positive. Here are two:

“Increasing the spread of job offers gives larger incentive to look for more jobs because the possibility of getting a job way better than the mean does exist.”

“This is because with more spread, one will have to look through more job offers to find the best offer.”

These are not good explanations of why n\* rises as X increases.

Consider a comparison of RAND() and RAND()\*1.5625:

0

1

0

1

1.5625

Yes, the spread is bigger, but what else is important? (Scroll down to find out.)

The average! That’s why n\* rises when X rises. The average job offer pay rises from 0.5 to ½ of 1.5625.

You might say, “You were going to ask me that on an exam???” have you lost your mind???”

Yeah, you’re right. There’s challenging and there’s insane . . .

Oh, and also, the question explicitly said to use the method of simulation to answer this question, but you could have done the analytical approach also, right? I mean, change X in cell B125 and you can see the effect immediately, right? And it agrees with sims, right? Now there might be a test question here . . .

Please remember that it’s student presentations for next class. Below is your assignment.

HW: Watch the first screencast in Inflation.xls and complete task 1 by noon Friday. You must prepare a 1 – 2 minute presentation (minimum 60 seconds and maximum 120 seconds) of a comparison of the inflation history of the US with a country of your choosing.