

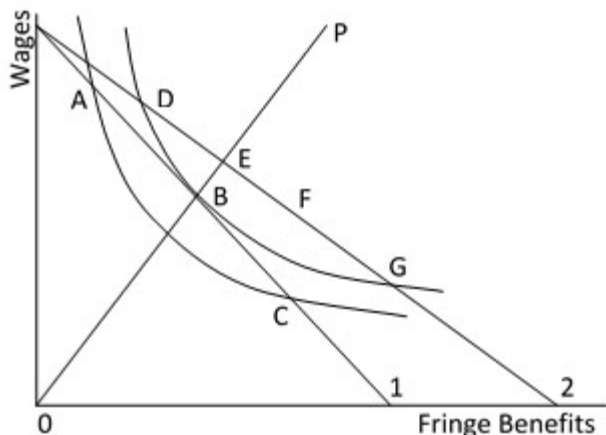
**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) "Total compensation" includes 1) \_\_\_\_\_
  - A) wages and salaries and all fringe benefits.
  - B) wages and salaries and public (legally mandated) fringe benefits only.
  - C) wages and salaries and private (nonmandatory) fringe benefits only.
  - D) wages and salaries and all fringe benefits net of all personal taxes.
  
- 2) Fringe benefits currently account for approximately what percentage of total compensation? 2) \_\_\_\_\_
  - A) 5%–10%
  - B) 20%–25%
  - C) 30%–35%
  - D) 35%–40%
  
- 3) As a percentage of benefits, the largest share goes to 3) \_\_\_\_\_
  - A) retirement and savings.
  - B) insurance.
  - C) paid leave.
  - D) legally required benefits.
  
- 4) The proportion of total compensation paid out as fringe benefits tends to be larger in 4) \_\_\_\_\_
  - A) high-paid industries compared to low-paid industries.
  - B) service industries compared to manufacturing industries.
  - C) white-collar occupations compared to blue-collar occupations.
  - D) retail trade compared to transportation and public utilities.
  
- 5) The share of fringe benefits in total employee compensation 5) \_\_\_\_\_
  - A) grew steadily in the 1960s and 1970s but has fallen since 1980.
  - B) was unchanged in the 1960s and 1970s and has fallen since 1980.
  - C) shrank in the 1960s and 1970s and has remained constant since then.
  - D) grew steadily from 1960 through the present.
  
- 6) Which one of the following is *not* a valid explanation for why workers may prefer an extra dollar's worth of fringe benefits to an extra dollar's worth of cash? 6) \_\_\_\_\_
  - A) Workers may prefer to bind themselves against their own tendencies toward immediate gratification.
  - B) Certain fringe benefits effectively trade current taxes for future taxes.
  - C) People generally prefer in-kind benefits to cash.
  - D) Certain fringe benefits are untaxed.
  
- 7) Because there is a \_\_\_\_\_ marginal rate of substitution of fringe benefits for wages, a worker's wage-fringe indifference curves are typically \_\_\_\_\_. 7) \_\_\_\_\_
  - A) diminishing; convex to the origin
  - B) constant; straight lines
  - C) diminishing; concave to the origin
  - D) negative; straight lines

- 8) The slope of a wage-fringe indifference curve reflects 8) \_\_\_\_\_
- A) the overall utility level of a person.
  - B) a worker's willingness to give up an extra dollar of wages in exchange for an extra dollar of fringe benefits.
  - C) the firm's cost of paying an extra dollar of compensation as wages rather than fringe benefits.
  - D) an increasing marginal rate of substitution of fringe benefits for cash.
- 9) An individual wage-fringe isoprofit line shows 9) \_\_\_\_\_
- A) combinations of wages and fringe benefits that result in constant dollar values of total compensation.
  - B) combinations of wages and fringe benefits that result in the same profit to the firm.
  - C) the greatest possible profit attainable from a given level of fringe benefits.
  - D) the greatest possible profit attainable from a given level of wages.
- 10) The slope of a wage-fringe isoprofit curve reflects 10) \_\_\_\_\_
- A) the overall profitability of the firm.
  - B) a worker's willingness to give up an extra dollar of wages in exchange for an extra dollar of fringe benefits.
  - C) the relative "price" of fringe benefits compared to wages.
  - D) an increasing marginal rate of substitution of fringe benefits for cash.
- 11) The firm's wage-fringe isoprofit curve typically has a slope less than 1 (absolute value) because 11) \_\_\_\_\_
- A) fringe benefits confer tax advantages on workers.
  - B) on average, it costs firms more to purchase fringe benefits than workers.
  - C) the composition of fringe benefits may increase worker productivity.
  - D) increasing the proportion of compensation received as fringe benefits reduces a firm's profit level.
- 12) If a firm can offer fringe benefits worth more than one dollar for a one dollar reduction in wages, 12) \_\_\_\_\_
- A) the wage-fringe isoprofit line will be upward-sloping.
  - B) the wage-fringe isoprofit line will have a slope less than one in absolute value.
  - C) the marginal rate of substitution between wages and fringe benefits will be greater than one at the wage-fringe optimum.
  - D) as a proportion of total compensation, fringe benefits will likely exceed one-half.

- 13) The employer's share of the Social Security and Medicare components of the payroll tax has increased, from 6.13% in 1980 to its current rate of 7.65%. Because employers pay no payroll tax on many fringe benefits, this change in tax rates has effectively 13) \_\_\_\_\_
- A) reduced the "price" of fringe benefits, increasing the slope of the wage-fringe isoprofit line.
  - B) increased the "price" of fringe benefits, increasing the slope of the wage-fringe isoprofit line.
  - C) reduced the "price" of fringe benefits, reducing the slope of the wage-fringe isoprofit line.
  - D) increased the "price" of fringe benefits, reducing the slope of the wage-fringe isoprofit line.
- 14) The trend of fringe benefits as a percentage of total compensation can be partially explained by the fact that 14) \_\_\_\_\_
- A) tax reform has rendered many types of fringe benefits fully taxable.
  - B) "in-kind" benefits restrict workers' consumption choices.
  - C) the firm may be able to purchase fringe benefits more cheaply than workers.
  - D) many types of fringe benefits are income inelastic.
- 15) Fringe benefits will tend to be a greater proportion of total compensation, the 15) \_\_\_\_\_
- A) more income elastic are fringe benefits.
  - B) more they increase worker turnover.
  - C) lower the employer's share of the Social Security tax.
  - D) less there are economies of scale in purchasing fringe benefits.
- 16) Which of the following is *not* a cause of fringe benefit growth? 16) \_\_\_\_\_
- A) tax advantages to the employer
  - B) efficiency considerations
  - C) economies of scale
  - D) Fringe benefits are income inelastic.

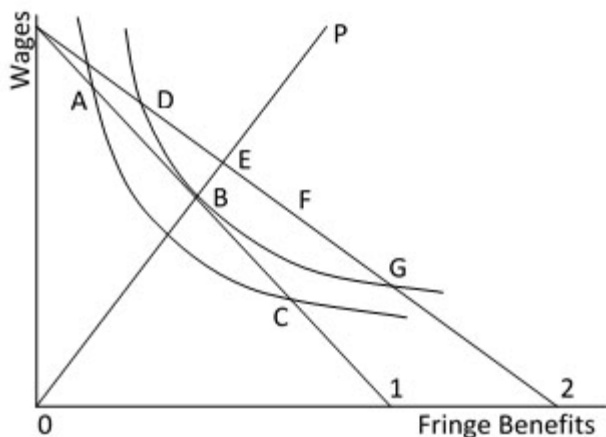
17) Refer to the diagram below. All points along the ray OP reflect a constant proportion of wages to fringe benefits. 17) \_\_\_\_\_



The shape of the indifference curves reflects

- A) a diminishing marginal rate of substitution of fringe benefits for wages.
- B) increased utility as fringe benefits are substituted for wages along an indifference curve.
- C) increased utility as wages are substituted for fringe benefits along an indifference curve.
- D) an increasing marginal rate of substitution of fringe benefits for wages.

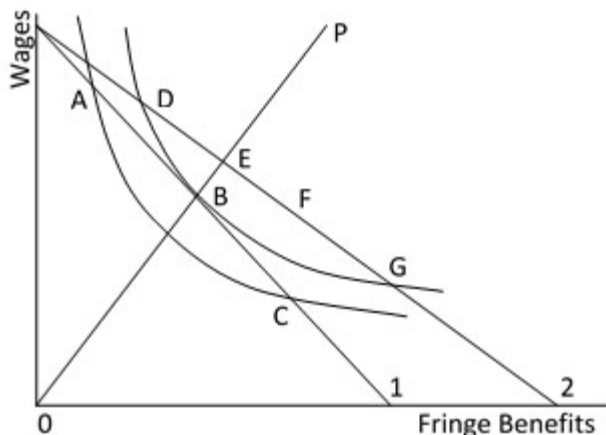
18) Refer to the diagram below. All points along the ray OP reflect a constant proportion of wages to fringe benefits. 18) \_\_\_\_\_



Given isoprofit line 1, this worker's wage-fringe optimum is given by point

- A) A.
- B) B.
- C) C.
- D) D.

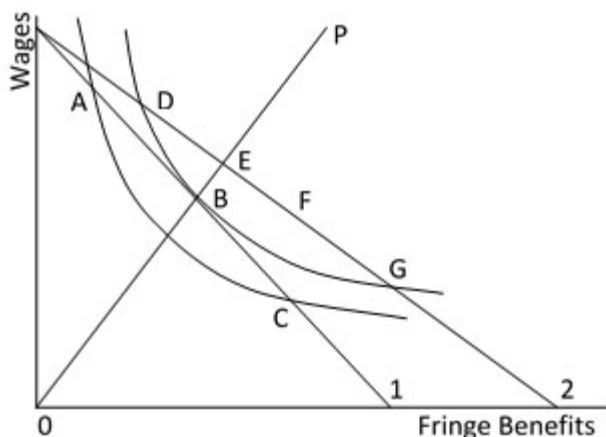
19) Refer to the diagram below. All points along the ray OP reflect a constant proportion of wages to fringe benefits. 19) \_\_\_\_\_



Suppose some development rotates the isoprofit line outward, to line 2. If history is a guide, would you expect this worker's new wage-fringe optimum to be at point

- A) D.                      B) E.                      C) F.                      D) G.

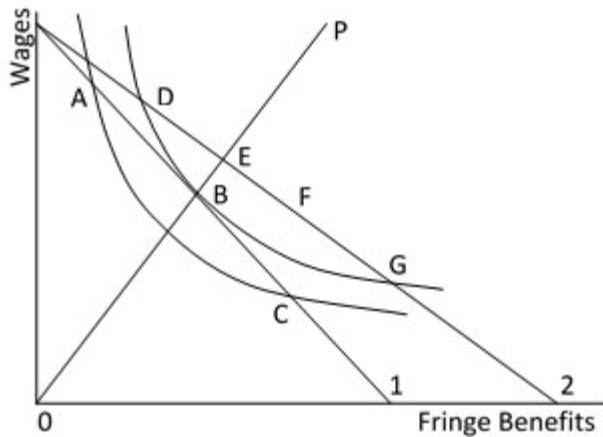
20) Refer to the diagram below. All points along the ray OP reflect a constant proportion of wages to fringe benefits. 20) \_\_\_\_\_



Which one of the following events could *not* have caused a shift from isoprofit line 1 to line 2?

- A) The employer's share of the payroll tax rate has increased and the limits expanded.
- B) Firms structured fringe benefits so as to increase worker productivity.
- C) The government began to subject some fringe benefits to the personal income tax.
- D) Insurance companies offered group discounts for medical and disability coverage.

- 21) Refer to the diagram below. All points along the ray OP reflect a constant proportion of wages to fringe benefits. 21) \_\_\_\_\_



If the isoprofit line shifts from line 1 to line 2, then

- A) to maintain profit level 2, the firm must provide more fringe benefits and reduce wages.
  - B) to maintain profit level 2, the firm must reduce fringe benefits and raise wages.
  - C) as the firm moves from line 1 to line 2, it could provide more fringe benefits while paying the same wage rate.
  - D) providing more fringe benefits would reduce the firm's profit.
- 22) One view of the firm is that stockholders hire managers who, in turn, hire workers. Maximum profits are earned by satisfying the customer. The two principal-agent relationships illustrated in this view are 22) \_\_\_\_\_
- A) manager-stockholder, worker-manager.
  - B) stockholder-manager, customer-manager.
  - C) manager-stockholder, manager-worker.
  - D) stockholder-manager, manager-worker.
- 23) The principal-agent problem arises primarily because 23) \_\_\_\_\_
- A) principals and agents work in a team, leading to free-rider problems.
  - B) principals and agents have common interests.
  - C) principals pursue some of their own objectives that may conflict with the objectives of the agents.
  - D) agents pursue some of their own objectives that may conflict with the objectives of the principals.



- 32) A simple income-leisure model might predict that salaried workers would work fewer hours than hourly workers. In fact the opposite seems to be true, in part because 32) \_\_\_\_\_
- A) raises and promotions are "won" on the basis of productivity rankings.
  - B) firms typically offer raises and promotions solely on the basis of seniority.
  - C) of the principle-agent problem.
  - D) salaried work is an example of a deferred compensation scheme.
- 33) The effectiveness of profit-sharing plans may be diminished because 33) \_\_\_\_\_
- A) potential free-rider problems render such plans ineffective in all but the largest firms.
  - B) profit-sharing is a type of deferred payment scheme.
  - C) the plans are tied to group performance, so the link between profit-sharing and worker productivity is not always clear-cut.
  - D) there is no means by which greater work effort can be translated into greater compensation for a worker.
- 34) Team bonuses 34) \_\_\_\_\_
- A) solve the free-rider problem associated with individual bonuses.
  - B) create a principal-agent problem by channeling effort toward team performance at the expense of individual performance.
  - C) typically comprise a large percentage of the total compensation of middle managers, but almost none of the total pay of top executives.
  - D) work best when targeted at relatively small groups of employees.
- 35) In some instances, profit sharing may not be a very effective tool for raising worker productivity because of the 35) \_\_\_\_\_
- A) free-rider problem.
  - B) principal-agent problem.
  - C) retirement problem.
  - D) tax and accounting rules that cause economic profit to differ from accounting profit.
- 36) The free-rider problem is most likely to arise in 36) \_\_\_\_\_
- A) small groups.
  - B) firms that tie bonuses to individual performance.
  - C) a profit-sharing plan.
  - D) firms that use piece rates.
- 37) A stock option will have value to a worker if 37) \_\_\_\_\_
- A) the firm's stock price is expected to rise.
  - B) the firm's stock price is expected to fall.
  - C) the "grant price" of the stock is expected to exceed its market price.
  - D) None of the other choices is correct.



38) Tournament pay 38) \_\_\_\_\_  
 A) reduces profits because of the excessive pay to chief executive officers implied by such plans.  
 B) may help to rationalize why some ineffective senior executives continue to be employed by a firm.  
 C) explains why "hostile" corporate takeovers occur.  
 D) explains why chief executive officers typically serve long periods at the top of their companies.

39) Raises and promotions may be viewed as a form of 39) \_\_\_\_\_  
 A) profit-sharing B) commissions and royalties.  
 C) piece rate pay. D) tournament pay.

40) Compared to their counterparts in other developed countries, CEOs in the United States are paid 40) \_\_\_\_\_  
 are paid  
 A) considerably less.  
 B) about the same.  
 C) considerably more.  
 D) a greater percentage of their compensation in the form of straight salary.

41) A firm might choose to pay its employees a wage higher than that which would clear the market because 41) \_\_\_\_\_  
 A) the higher wage raises the opportunity cost of shirking.  
 B) the higher wage may shift the labor demand curve to the left.  
 C) the firm will have higher turnover, allowing new workers to invigorate the workplace.  
 D) the higher wage solves the free-rider problem.

42) Suppose a "fully effective" worker can produce 20 units per hour in a particular firm. 42) \_\_\_\_\_  
 The firm's wage-productivity relationship is given by the table below.

Wage	Output per Worker
\$10	20
9	20
8	16
7	10

If the actual wage is \$7, the wage cost per effective unit of labor is  
 A) \$3.50. B) \$10.00. C) \$7.00. D) \$14.00.

- 43) Suppose a "fully effective" worker can produce 20 units per hour in a particular firm. The firm's wage-productivity relationship is given by the table below. 43) \_\_\_\_\_

Wage	Output per Worker
\$10	20
9	20
8	16
7	10

This firm's efficiency wage rate is

- A) \$7.00.                      B) \$8.00.                      C) \$9.00.                      D) \$10.00.
- 44) According to efficiency wage models, the firm's profits will increase whenever the wage causes 44) \_\_\_\_\_
- A) worker productivity to increase by a larger proportion than the wage increase.  
 B) worker productivity to increase.  
 C) worker turnover to fall.  
 D) worker nutrition to increase.
- 45) One implication of efficiency wage models is that 45) \_\_\_\_\_
- A) firms pay wages below the market-clearing rate.  
 B) an excess supply of labor may be created.  
 C) an excess demand for labor may be created.  
 D) CEO contracts will contain golden parachute clauses.
- 46) Which one of the following is *not* typically offered as an explanation for efficiency wages? 46) \_\_\_\_\_
- A) An employer will not pay a wage that exceeds the market rate.  
 B) A higher wage may reduce turnover.  
 C) A higher wage may allow lower-income workers to afford better nutrition that increases their stamina.  
 D) The higher wage may be perceived by workers as raising the opportunity cost of shirking.
- 47) Efficiency wage models are often criticized because 47) \_\_\_\_\_
- A) other pay-for-performance plans could serve as a substitute for an efficiency wage.  
 B) employees could be required to post a forfeitable bond instead.  
 C) shirking could be reduced by deferred compensation plans.  
 D) All of the other choices are correct.

- 48) Labor market efficiency requires that each worker be allocated to 48) \_\_\_\_\_
- A) the job offering the highest wage available.
  - B) the job offering the best fringe benefits available.
  - C) his or her optimal job.
  - D) his or her optimal job and that each firm implements its optimal compensation package.
- 49) In 1914 Ford Motor Company doubled the wage it paid its employees, resulting in 49) \_\_\_\_\_
- A) unusually high quit rates and absenteeism.
  - B) no change in the number of job applicants, because the offer only applied to persons employed at Ford more than six months.
  - C) lower quit rates and less absenteeism but no change in worker productivity.
  - D) an increase in worker productivity of more than 50%.