Chapter 6 MULTIPLE-CHOICE QUESTIONS

1. Which one of the following is generally considered a characteristic of a perfectly competitive labor market?
   a. A few workers of varying skills and capabilities
   b. Wage-setting behavior by firms
   c. Numerous firms hiring labor from the same pool of qualified workers
   d. Costly information

2. A perfectly competitive labor market may be characterized by all of the following except:
   a. neither firms nor workers have any control over the market wage
   b. a few firms that dominate hiring in the market
   c. numerous equally qualified workers
   d. perfect information

3. Which of the following best explains why the market labor supply curve is upward sloping, even though individual supply curves are normally backward bending?
   a. The statement is not true: market labor supply curves are also backward bending
   b. Market labor supply curves are “price-adjusted,” whereas individual supply curves are not
   c. Lower wages in a given market increase the demand for labor, so more labor must be supplied to maintain labor market equilibrium
   d. Higher wages in a given market attract more workers away from other activities, more than compensating for any reduction in hours by individuals already in the market

4. Market labor supply curves are generally:
   a. upward sloping, as higher wages attract workers away from their next best alternatives
   b. backward-bending, as the substitution effect of higher wages outweighs the income effect
   c. vertical at any particular point in time
   d. perfectly elastic at the market wage rate

5. In a perfectly competitive environment, the height of the market labor supply curve at any given number of labor hours indicates:
   a. the total cost of employing that number of hours in the given occupation
   b. the marginal cost of employing the first hour of labor
   c. the value of the alternative activity in which the marginal hour might otherwise be used
   d. the maximum wage employers would be willing to pay to attract additional labor

6. A firm will obtain its profit maximizing level of employment where:
   a. marginal revenue product equals value of marginal product
   b. marginal revenue product equals marginal wage cost
   c. value of marginal product equals marginal wage cost
   d. marginal product equals marginal revenue product
Questions 7 and 8 refer to the following diagram of a perfectly competitive labor market:

7. At wage rate $W_1$ there is an:
   a. excess supply of labor and the wage rate will fall
   b. excess supply of labor and the wage rate will rise
   c. excess demand for labor and the wage rate will fall
   d. excess demand for labor and the wage rate will rise

8. For the supply and demand curves in the diagram, the level of employment will be highest at:
   a. wage rate $W_1$
   b. wage rate $W_2$
   c. a wage rate higher than $W_1$
   d. a wage rate lower than $W_2$

9. There will be a shortage of labor in a particular market if:
   a. labor supply increases and demand decreases
   b. the current wage is above the wage that would clear the market
   c. there is a decrease in the price of a substitute resource
   d. the current wage is below the wage that would clear the market

10. If capital and labor are gross complements, an increase in the cost of capital will:
    a. increase the supply of labor and drive the wage down
    b. decrease the demand for labor and drive the wage down
    c. increase the demand for labor and drive the wage up
    d. either increase or decrease the demand for labor depending on whether the substitution effect or the output effect is stronger

11. Suppose workers in labor market X are qualified to work in an alternative competitive labor market Y, and vice versa. An increase in the demand for labor in market Y will:
    a. increase labor supply in X and drive its wage down
    b. decrease labor supply in X and drive its wage up
    c. reduce labor supply in Y and drive its wage down
    d. have no impact at all in X

12. A net increase in people’s preferences for work relative to leisure in a particular market will:
    a. increase labor supply, reducing the wage rate
    b. decrease labor supply, increasing the wage rate
    c. increase labor demand, increasing the wage rate
    d. decrease labor demand, reducing the wage rate
13. All else equal, which of the following will increase the demand for labor in a particular market?
a. A decrease in the wage paid to another occupation for which these workers are qualified
b. A decrease in worker productivity
c. An improvement in the nonwage aspects of the job
d. An increase in the number of employers

14. At the profit maximizing level of employment for a monopolist:
a. marginal revenue product equals the value of marginal product
b. marginal revenue product exceeds the value of marginal product
c. value of marginal product equals the marginal wage cost
d. marginal revenue product is less than the value of marginal product

15. All profit-maximizing firms hire labor up to the point where:
a. price times marginal product equals the wage rate
b. marginal revenue times marginal product equals the wage rate
c. price times marginal product equals the marginal wage cost
d. marginal revenue times marginal product equals the marginal wage cost

Questions 16 and 17 refer to the following diagram of a competitive labor market.

16. Suppose the wage is currently $W_1$ and $L_1$ is the level of employment. If the firm sells its output competitively, the value of the last worker’s additional output is _____ and the opportunity cost of the last worker’s time is _____:
a. $W_1$; $W_1$  
 b. $W_1$; $W_2$  
c. $W_1$; $W_3$  
d. $W_2$; $W_2$

17. Suppose the wage is currently $W_3$ and $L_1$ is the level of employment. Then we should expect the wage to:
a. rise and employment to rise  
b. rise and employment to fall  
c. fall and employment to rise  
d. fall and employment to fall

18. Which one of the following conditions is required for allocative efficiency?
a. Marginal revenue product exceeds the value of marginal product by the greatest amount
b. Marginal revenue product equals the wage rate
c. Value of marginal product equals the marginal wage cost
d. Value of marginal product is the same in all alternative employments of a given type of labor

19. Allocative efficiency is achieved when:
a. the marginal product of labor equals its value of marginal product
b. all resources are fully employed
c. the price of each resource equals the value of its marginal product
d. the price of each resource equals the value of its marginal product and its marginal opportunity cost
20. Allocative inefficiency in a labor market may be caused by:
   a. monopoly power in the product market
   b. monopsony power in the labor market
   c. both a. and b. are correct
   d. neither a. nor b. are correct

Questions 21 – 24 refer to the following table that shows the short-run production relationship and the product demand schedule for a firm.

<table>
<thead>
<tr>
<th>Labor</th>
<th>Output</th>
<th>Output Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10</td>
<td>$20.00</td>
</tr>
<tr>
<td>2</td>
<td>15</td>
<td>19.00</td>
</tr>
<tr>
<td>3</td>
<td>19</td>
<td>18.00</td>
</tr>
<tr>
<td>4</td>
<td>22</td>
<td>17.00</td>
</tr>
<tr>
<td>5</td>
<td>24</td>
<td>16.00</td>
</tr>
<tr>
<td>6</td>
<td>25</td>
<td>15.00</td>
</tr>
</tbody>
</table>

21. The table indicates that:
   a. the firm sells output in a perfectly competitive market
   b. the firm is a monopolist
   c. the firm hires labor in a perfectly competitive market
   d. the firm is a monopsonist

22. What is the marginal revenue product of the third worker?
   a. $18  b. $57  c. $72  d. $342

23. What is the value of the third worker’s marginal product?
   a. $18  b. $57  c. $72  d. $342

24. How many workers will this firm hire if the wage is $10?
   a. 2  b. 3  c. 5  d. 6

25. For a firm hiring labor and selling its output in perfectly competitive markets:
   a. \( P_L = MWC \text{ and } VMP = MRP \)
   b. \( P_L = MWC \text{ and } VMP > MRP \)
   c. \( P_L > MWC \text{ and } VMP = MRP \)
   d. \( P_L > MWC \text{ and } VMP > MRP \)

26. Which of the following is a true statement?
   a. Monopolists employ too many labor resources, because the value of the marginal product exceeds the marginal opportunity cost of labor
   b. For a monopolist, the marginal revenue product of labor exceeds marginal wage at the profit maximizing level of employment
   c. Monopolists pay a lower wage than competitors for the same type of labor
   d. The monopolist’s demand for labor curve is less elastic than if it were a competitor in the sale of its output.
27. Compared to a firm that sells its output competitively, an otherwise identical monopolist operating in the same labor market will:
   a. pay a lower wage   c. pay a higher wage
   b. pay the same wage   d. may pay either a higher or lower wage

Questions 28 – 30 refer to the following diagram that shows the labor demand for a monopolistic firm hiring labor from a competitive labor market.

28. At the profit maximizing level of employment, the wage rate is _____ and the level of employment is _____:
   a. W₁; Q₁   b. W₁; Q₂   c. W₂; Q₁   d. W₂; Q₂

29. The efficiency loss associated with the profit maximizing wage and employment level is given by area:
   a. Q₁ACQ₂   b. BAC   c. 0W₂AQ₁   d. W₁W₂AC

30. The allocatively efficient level of employment for this firm is given by:
   a. Q₁   b. Q₂   c. some amount between Q₁ and Q₂   d. some amount greater than Q₂

31. A monopsonist’s marginal wage cost curve is positively sloped because:
   a. it “discriminates” by paying each worker a different wage according to his or her opportunity cost
   b. it must charge a lower price for each additional unit of output, and it must charge this lower price for all units sold
   c. it pays its workers lower wages, so that the supply of labor to the market is restricted
   d. it must pay a higher wage to attract additional workers and it must pay this higher wage to all workers

32. A firm can hire 20 workers for $10 per hour, but finds it must raise the wage to $11 to attract another worker. If it must pay all its workers the same wage, the marginal wage cost of the 21st worker is:
   a. $10   b. $11   c. $21   d. $31

33. At the profit maximizing level of employment for a monopsonist:
   a. the wage exceeds the marginal wage cost
   b. marginal revenue product equals the wage
   c. the wage is less than marginal wage cost
   d. marginal product equals marginal revenue product
34. Compared to a monopsonist that sells its output in a competitive product market, an otherwise identical monopsonist with monopoly power in the product market will pay:
   a. a lower wage       c. the same wage
   b. a higher wage      d. more information is needed

   Questions 35 – 38 refer to the following diagram of a monopsonistic labor market.

35. At the profit maximizing level of employment, the wage rate is _____ and the level of employment is _____:
   a. \( W_1; Q_1 \)  c. \( W_2; Q_2 \)
   b. \( W_3; Q_1 \)  d. \( W_3; Q_3 \)

36. Relative to their monopsony levels, both the wage and the level of employment would increase in this market if a wage-setting union negotiates a wage:
   a. anywhere between \( W_1 \) and \( W_3 \)
   b. anywhere between \( W_2 \) and \( W_3 \)
   c. anywhere between \( W_1 \) and \( W_2 \)
   d. equal to \( W_2 \) only

37. If legislation set the minimum wage at \( W_2 \), then employment:
   a. would fall from its original monopsony level
   b. would remain unchanged
   c. would rise from its original monopsony level
   d. may or may not change from its original monopsony level

38. If this firm sells its output in a competitive market (so that MRP = VMP), the allocative efficiency loss in the labor market is given by area:
   a. \( W_3ACW1 \)  c. \( \text{CAD} \)
   b. \( \text{Q1ABQ2} \)  d. \( \text{CAB} \)

39. Compared to the allocatively efficient amount, a monopsonist tends to hire:
   a. too few workers because the value of marginal product exceeds marginal revenue product
   b. too few workers because marginal wage cost exceeds the wage rate
   c. too many workers because the value of marginal product exceeds marginal revenue product
   d. too many workers because marginal wage cost exceeds the wage rate