Multiple Choice Questions

1. Refer to the above graph. An increase in the quantity of labor demanded (as distinct from an increase in demand) is shown by the:
   A. shift from labor demand curve $D_1$ to $D_2$.
   B. move from $a$ to $b$ along labor demand curve $D_1$.
   C. shift from labor demand curve $D_3$ to $D_2$.
   D. move from $b$ to $a$ along labor demand curve $D_1$.

2. A manufacturer using both capital and labor decides to use more labor and less capital because of an increase in the price of capital. This is likely the result of:
   A. capital and labor being complementary inputs.
   B. capital and labor being substitute inputs.
   C. the output effect being greater than the substitution effect.
   D. diminishing returns being applicable to capital but not to labor.

3. Assume that a restaurant is hiring labor in an amount such that the MRC of the last worker is $16$ and her MRP is $12$. On the basis of this information we can say that:
   A. profits will be increased by hiring additional workers.
   B. profits will be increased by hiring fewer workers.
   C. marginal revenue product must exceed average revenue product.
   D. the restaurant is maximizing profits.

4. The MRP curve for labor:
   A. is downsloping and shows the relationship between wage rates and the quantity of labor demanded.
   B. is perfectly elastic if the firm is selling its output competitively.
   C. is upsloping and lies above the labor supply curve.
   D. will shift location when the wage rate changes.
Answer the next question(s) on the basis of the following information:
Suppose a firm hires both labor \((L)\) and capital \((C)\) under purely competitive conditions. The price of labor is \(P_L\) and that of capital is \(P_C\). The marginal product of labor is \(MP_L\) and that of capital is \(MP_C\). The firm sells its product competitively at a price of \(P_X\).

5. Refer to the above information. In competitive labor markets, the marginal cost of an additional unit of labor:
   A. is equal to \(P_L \times MP_L\).
   B. is equal to \(MP_L / P_L\).
   C. is equal to \(P_L\).
   D. cannot be determined from the information given.

6. Which of the following statements best illustrates the concept of derived demand?
   A. As income goes up the demand for farm products will increase by a smaller relative amount.
   B. A decline in the price of margarine will reduce the demand for butter.
   C. A decline in the demand for shoes will cause the demand for leather to decline.
   D. When the price of gasoline goes up, the demand for motor oil will decline.

7. A change in the price of an input will usually:
   A. shift a firm’s cost curves.
   B. cause the firm to alter the combination of inputs it employs.
   C. induce the firm to change its level of output.
   D. do all of the above.

8. The marginal revenue product of any input is the:
   A. cost of an additional unit of that input.
   B. added profits resulting from the use of one more unit of that input.
   C. additional output resulting from the use of one more unit of that input.
   D. additional revenue resulting from the use of one more unit of that input.

9. The change in a firm’s total revenue that results from the hire of an additional worker is measured by:
   A. marginal product.
   B. marginal revenue product.
   C. marginal revenue.
   D. average revenue product.

10. Assume that a firm’s production technique is such that varying combinations of labor and capital can be used to produce output. If the price of labor falls relative to the price of capital and the firm decides to use more labor in the production process, this decision is:
    A. solely the result of the substitution effect.
    B. solely the result of the output effect.
    C. probably the result of both the substitution and output effects.
    D. the result of neither the substitution nor the output effect.
11. Suppose capital and labor are used in fixed proportions so that each machine requires only one worker. If a decline in the price of capital occurs, then the demand for labor will:
A. decline solely because of the substitution effect.
B. increase solely because of the substitution effect.
C. increase solely because of the output effect.
D. decrease solely because of the output effect.

12. (Last Word) ATMs and human bank tellers:
A. are substitute resources.
B. are capital goods.
C. have both declined in number because of bank mergers.
D. are complementary resources.

13. The elasticity of resource demand measures the:
A. responsiveness of workers to changes in wage rates.
B. responsiveness of producers to changes in resource prices.
C. ratio of marginal revenue product to resource price.
D. sensitivity of marginal revenue product to changes in product price.

14. Which of the following will \textit{not} shift the demand curve for labor?
A. the use of a larger stock of capital with the labor force.
B. a change in the wage rate.
C. an increase in the price of the product which labor is helping to produce.
D. the adoption of a more efficient method of combining labor and capital in the production process.

15. Refer to the above graph. Each of the three labor demand curves shown slopes downward because of the:
A. law of diminishing marginal utility.
B. principal-agent problem.
C. law of increasing opportunity costs.
D. law of diminishing returns.

16. Refer to the above graph. A move from \textit{b} to \textit{a} along labor demand curve \textit{D}, would result from:
A. a decrease in the price of a substitute resource, assuming that the substitution effect exceeds the output effect.
B. an increase in the wage rate.
C. a decrease in the wage rate.
D. an increase in the demand for the product that this labor is helping to produce.

17. If the wage rate increases:
A. a purely competitive producer will hire less labor, but an imperfectly competitive producer will not.
B. an imperfectly competitive producer will hire less labor, but a purely competitive producer will not.
C. a purely competitive and an imperfectly competitive producer will both hire less labor.
D. an imperfectly competitive producer may find it profitable to hire either more or less labor.
18. When the elasticity coefficient for resource demand is less than one, resource demand is:
A. inelastic.
B. elastic.
C. unit elastic.
D. infinitely elastic.

19. (Consider This) According to the Consider This box "She's the One," the high pay of superstars reflects:
A. elastic product demand.
B. blocked occupational entry.
C. high marginal revenue productivity.
D. warped societal values.

Answer the next question(s) on the basis of the following information for Manfred's Shoe Shine Parlor. Assume Manfred hires labor, its only variable input, under purely competitive conditions. Shoe shines are also sold competitively.

<table>
<thead>
<tr>
<th>Units of labor</th>
<th>Total product</th>
<th>Marginal product</th>
<th>Total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>14</td>
<td>14</td>
<td>$ 42</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>30</td>
<td></td>
<td>90</td>
</tr>
<tr>
<td>4</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>39</td>
<td></td>
<td>117</td>
</tr>
<tr>
<td>6</td>
<td>44</td>
<td>2</td>
<td>132</td>
</tr>
</tbody>
</table>

20. Refer to the above data. If Manfred's only fixed input is capital, the total cost of which is $30, then what will be his economic profit?
A. $62
B. $42
C. $28
D. $32

21. Suppose that a union successfully negotiated a 10 percent wage increase and the quantity of labor demanded decreased by 10 percent. Given a fixed labor demand curve, we can conclude that:
A. the labor demand curve is upward sloping.
B. labor demand is elastic.
C. labor demand is unit-elastic.
D. the coefficient of elasticity of labor demand is less than 1.

22. For a firm selling its product in an imperfectly competitive market, the marginal revenue product of labor can be found by:
A. adding marginal product to total product as one more unit of labor is employed.
B. adding marginal revenue to total product as one more unit of labor is employed.
C. multiplying marginal product by product price.
D. multiplying marginal product by marginal revenue.
23. A firm will employ more of an input whose relative price has fallen and, conversely, will use less of an input whose relative price has risen. Thus a fall in the price of capital will increase the relative price of labor and thereby reduce the demand for labor. This describes the:
A. output effect.
B. substitution effect.
C. idea of derived demand.
D. law of diminishing returns.

Answer the next question(s) on the basis of the following information: Jones owns a barber shop and charges $6 per haircut. By hiring one barber at $10 per hour the shop can provide 24 haircuts per 8-hour day. By hiring a second barber at the same wage rate the shop can now provide a total of 42 haircuts per day.

24. Refer to the above information. Jones should:
A. hire the second barber because he will add $28 to profits.
B. hire the second barber because he will add $108 to profits.
C. not hire the second barber because he is less productive than the first barber.
D. not hire the second barber because he will diminish profits.

25. The fact that monopoly and monopsony exist in resource markets means that:
A. the marginal productivity theory of income distribution is valid.
B. resource prices need not accurately measure contributions to output.
C. the resulting income distribution is ethically correct.
D. income shares do not exhaust the total output.

Answer the next question(s) on the basis of the information given in the following table:

<table>
<thead>
<tr>
<th>Employment</th>
<th>Total Product</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>$3</td>
</tr>
<tr>
<td>1</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>36</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>40</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>42</td>
<td>3</td>
</tr>
</tbody>
</table>

26. Refer to the above data. If the firm is hiring workers under purely competitive conditions at a wage rate of $10, it will employ:
A. 2 workers.
B. 3 workers.
C. 4 workers.
D. 5 workers.
27. Marginal resource cost is:
A. the increase in total resource cost associated with the production of one more unit of output.
B. the increase in total resource cost associated with the hire of one more unit of the resource.
C. total resource cost divided by the number of inputs employed.
D. the change in total revenue associated with the employment of one more unit of the resource.

28. If the price of capital declines, the consequent output effect would be:
A. greater, the more elastic the demand for the product.
B. greater, the less elastic the demand for the product.
C. negative.
D. of consequence only if capital and labor are used in fixed proportions.

Answer the next question(s) on the basis of the following information.
A farmer who has fixed amounts of land and capital finds that total product is 24 for the first worker hired; 32 when two workers are hired; 37 when three are hired; and 40 when four are hired. The farmer's product sells for $3 per unit and the wage rate is $13 per worker.

29. Refer to the above information. The marginal revenue product of the second worker is:
A. $24.
B. $8.
C. $15.
D. $9.

30. Marginal product is:
A. the output of the least skilled worker.
B. a worker's output multiplied by the price at which each unit can be sold.
C. the amount an additional worker adds to the firm's total output.
D. the amount any given worker contributes to the firm's total revenue.

Pre-Test Chapter 25 ed17 Key

1. C
2. B
3. B
4. A
5. C
6. C
7. D
8. D
9. C
10. C
11. C
12. A
13. B
14. B
15. D
16. B
17. C
18. A
19. B
20. D
21. C
22. D
23. B
24. A
25. B
26. D
27. B
28. A
29. A
30. C