Multiple Choice Questions

1. Which of the following describes a purely competitive labor market?
   A. MRP < Wage Rate.
   B. MRP > Wage Rate.
   C. Wage Rate = MRC.
   D. Wage Rate < MRC.

   (1) W < MRP; W < MRC
   (2) W = MRP; W < MRC
   (3) W = MRP; W = MRC
   (4) W > MRP; W > MRC

2. Refer to the above list. The outcome in a monopsony labor market is shown by:
   A. 1.
   B. 2.
   C. 3.
   D. 4.

3. A large hospital in a relatively small city finds that, if its demand for nurses increases, the wages of nurses will rise. We can say that the hospital:
   A. is a monopsonist.
   B. faces a perfectly elastic supply of nurses.
   C. is functioning in a perfectly competitive labor market.
   D. will confront a surplus of nurses.

4. Author Joe Writer receives $2 per book sold. This payment is a(n):
   A. piece rate.
   B. royalty.
   C. bonus.
   D. example of profit-sharing.
Use the labor demand data on the left and the labor supply data on the right in answering the following question(s):

<table>
<thead>
<tr>
<th>Employment</th>
<th>Marginal Product</th>
<th>Price</th>
<th>Wage Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>$3</td>
<td>0</td>
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<tr>
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<td>6</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>

5. Refer to the above data. The firm is hiring labor:
A. at a wage rate that exceeds labor's MRP.
B. in an imperfectly competitive market.
C. under purely competitive conditions.
D. as a monopsonist.

6. A monopsonist:
A. boosts the wage rate above the competitive level to attract more workers.
B. reduces the number of workers it employs so that it can pay each worker a lower wage rate.
C. is a "wage taker."
D. pays a wage rate equal to MRP.

<table>
<thead>
<tr>
<th>Units of Labor</th>
<th>Wage Rate</th>
<th>MRC (of Labor)</th>
<th>MRP (of Labor)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$8</td>
<td>$8</td>
<td>$12</td>
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<td>5</td>
<td>8</td>
<td>8</td>
<td>4</td>
</tr>
</tbody>
</table>

7. Refer to the above data. At the profit maximizing level of employment, this firm's, total labor cost will be:
A. $16.
B. $30.
C. $24.
D. $32.

8. Which of the following involves the creation of human capital?
A. the XYZ Corporation upgrades the machinery on its assembly line
B. Jones receives apprenticeship training as a carpenter
C. Smith buys 30 shares of common stock
D. a retired person decides to reenter the labor force
9. The principal-agent problem arises primarily because:
A. principals and agents share a common interest, leading to free-rider problems.
B. principals and agents are in an adversarial role, sharing no 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.

10. Refer to the above diagram. If this labor market is purely competitive, the wage rate and level of employment respectively will be:
A. D and E.
B. C and E.
C. B and G.
D. B and F.

11. A firm might choose to pay its employees a wage higher than that which would clear the market because:
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 blood" to invigorate older workers who have a greater tendency to shirk.
D. this policy reduces the proportion of experienced to inexperienced workers, resulting in a lower overall wage bill.
12. Refer to the above diagram. Assuming no union or relevant minimum wage, the firm represented will hire:
A. $Q_2$ workers and pay a $W_4$ wage rate.
B. $Q_3$ workers and pay a $W_2$ wage rate.
C. $Q_2$ workers and pay a $W_1$ wage rate.
D. $Q_2$ workers and pay a $W_1$ wage rate.

13. The individual firm in a purely competitive labor market faces:
A. a perfectly elastic labor supply curve and a downsloping labor demand curve.
B. a perfectly elastic labor demand curve and an upsloping labor supply curve.
C. labor demand and labor supply curves both of which are perfectly elastic.
D. a downsloping labor demand curve and an upsloping labor supply curve.

14. Occupational licensing:
A. functions essentially the same as inclusive unionism.
B. attracts large numbers of workers and therefore depresses wages.
C. often restricts occupational entry and raises the incomes of licensees.
D. has been declared illegal in the majority of states.

15. In the context of labor markets, shirking refers to:
A. the nonmonetary disadvantages of certain jobs.
B. the neglecting or evading of work.
C. the elimination of monitoring costs.
D. any scheme where pay is directly related to worker output.
Use the resource demand data shown on the left and the resource supply data on the right in answering the following question(s):

<table>
<thead>
<tr>
<th>Employment</th>
<th>Total Product</th>
<th>Price</th>
<th>Employment</th>
<th>Wage Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>$2.20</td>
<td>0</td>
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<td>1</td>
<td>$1.00</td>
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<td>1.80</td>
<td>2</td>
<td>2.00</td>
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<td>1.60</td>
<td>3</td>
<td>3.00</td>
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<tr>
<td>6</td>
<td>60</td>
<td>1.00</td>
<td>6</td>
<td>6.00</td>
</tr>
</tbody>
</table>

16. Refer to the above data. What will be the selling price of the product?
A. $1.40
B. $1.60
C. $1.80
D. $2.00

17. (Consider This) The main idea highlighted in the story about artist Pablo Picasso is:
A. derived demand.
B. human capital.
C. opportunity cost.
D. occupational licensure.

18. Critics of the minimum wage argue that as an antipoverty device it is "poorly targeted." By this they mean that:
A. the minimum wage only applies to a small percentage of the labor force.
B. many who benefit from the minimum wage are not poor.
C. the government has been unable to enforce the minimum wage.
D. the average level of wages in the economy is considerably higher than the minimum wage.

19. Which of the following is not correct?
A. Other things equal, a monopsonist will pay a lower wage rate than will a firm hiring labor competitively.
B. A monopsonistic employer will pay workers a wage rate equal to their MRP.
C. A purely competitive seller will pay workers a wage rate equal to their MRP.
D. An imperfectly competitive seller will pay workers a wage rate equal to their MRP.

20. If the minimum wage is set too high, in some labor markets we can expect to see:
A. a shortage of labor.
B. an increase in on-the-job training.
C. a surplus of labor.
D. a decline in wage costs.
21. Refer to the above diagrams. The firm:
A. is a monopsonist in the hire of labor.
B. must be selling its product in an imperfectly competitive market.
C. is a “wage taker.”
D. must pay a higher marginal resource cost for each successive worker.

22. A firm operating in a purely competitive resource market has a resource supply curve that is:
A. perfectly inelastic.
B. perfectly elastic.
C. highly inelastic.
D. highly elastic.

23. Unions might support a higher minimum wage because:
A. their constitutions obligate them to do so.
B. they feel a higher minimum wage will lower labor's tax payments for welfare programs.
C. a higher minimum wage makes less-skilled workers less substitutable for union workers.
D. the minimum wage is better targeted than are alternative income-maintenance programs.

24. A union may increase the demand for the services of its constituents by all of the tactics below except:
A. successfully increasing labor productivity.
B. lobbying for increases in public expenditures on the product it is producing.
C. successfully advertising the product it is producing to private consumers.
D. increasing the price of products that are complements for the one it is producing.

25. If the above diagram was relevant to an individual firm, we could conclude that the firm is:
A. a pure competitor in the hire of labor.
B. a monopsonist in the hire of labor.
C. selling its product in an imperfectly competitive market.
D. selling its product in a purely competitive market.
26. Refer to the above data. At the profit maximizing level of employment, this firm's, total revenue will be:
A. $16.
B. $32.
C. $24.
D. $30

<table>
<thead>
<tr>
<th>Quantity of labor</th>
<th>Total product</th>
<th>Total revenue</th>
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<tbody>
<tr>
<td>1</td>
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27. Refer to the above data. If the market wage rate is $8 and the firm hires its profit-maximizing number of workers, the firm's total wage bill (payment) will be:
A. $16.
B. $24.
C. $32.
D. $48.

28. The earnings of highly educated workers:
A. rise more slowly than those of less-educated workers.
B. rise more rapidly than those of less-educated workers.
C. rise at about the same rate as those of less-educated workers.
D. stagnate earlier than do those of less-educated workers.

29. Marginal revenue product (MRP) of labor refers to the:
A. increase in total revenue resulting from the sale of an additional unit of output.
B. amount by which a firm's total resource cost increases when it employs one more unit of labor.
C. increase in total revenue resulting from the hire of one more unit of labor.
D. price at which additional units of labor can be employed in a monopsonized labor market.

30. In a labor market characterized by bilateral monopoly the wage rate will:
A. be logically indeterminate.
B. be established at the level desired by the union.
C. be established at the level desired by the employer.
D. always be established at the competitive level.
## Pre-Test Chapter 26 ed17 Key

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