Econ 101 Discussion Section

Worksheet 13: Chapter 18

Review of Concepts:

- Demand for Labor
- Supply for Labor
- Equilibrium in the Labor Market
- Human Capital

Practice Exercises: Multiple Choice

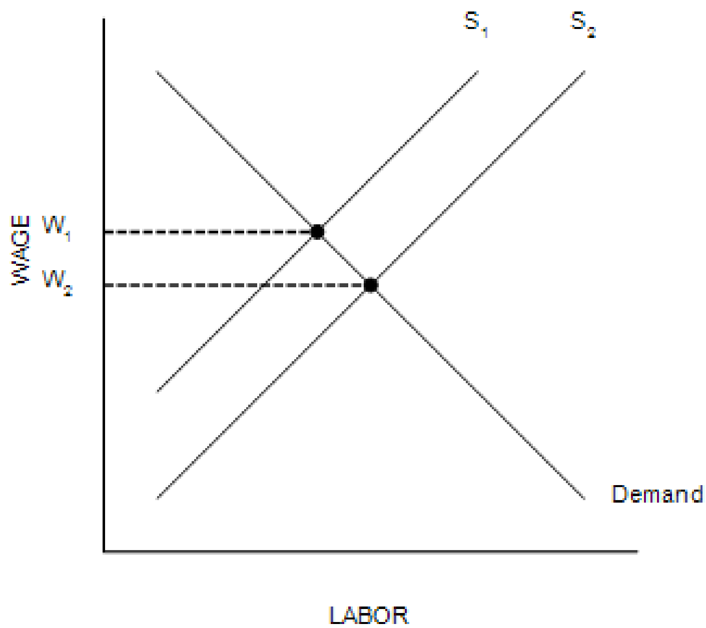
Indicate the answer choice that best completes the statement or answers the question.

1. Because a firm's demand for a factor of production is derived from its decision to supply a good in the market, it is called a
   a. marginal product of demand.
   b. secondary demand.
   c. derived demand.
   d. compensatory demand.

2. Value of marginal product is defined as the additional
   a. output a firm would receive after hiring one more unit of a factor of production.
   b. cost of hiring one more unit of a factor of production.
   c. revenue earned from selling one more unit of product.
   d. revenue earned from hiring one more unit of a factor of production.

3. To maximize profit, a competitive firm hires workers up to the point of intersection of the
   a. marginal product curve and the wage.
   b. value of marginal product curve and the wage.
   c. value of marginal product curve and the marginal revenue curve.
   d. total revenue curve and the wage.

Figure 18-5



4. **Refer to Figure 18-5**. When the relevant labor supply curve is S_1, and the labor market is in equilibrium, the

   a. wage is W_2.

   b. opportunity cost of leisure to workers is W_2.

   c. marginal product of labor to firms is W_1.

   d. value of the marginal product of labor to firms is W_1.

5. **Refer to Figure 18-5**. Which of the following would shift the labor supply curve from S_2 to S_1?

   a. Technological progress

   b. A decrease in the price of the firm's output

   c. A change in workers' attitudes toward the work-leisure tradeoff in favor of leisure

   d. A decrease in the wage rate

6. **Refer to Figure 18-5**. If the relevant labor supply curve is S_2 and the current wage is W_1,

   a. there is a surplus of labor.

   b. the quantity of labor demanded exceeds the quantity of labor supplied.

   c. an increase in the minimum wage could restore equilibrium in the market.

   d. firms will need to raise the wage to restore equilibrium.

Indicate whether the statement is true or false.

7. Technological advances can cause the labor demand curve to shift.
   a. True
   b. False

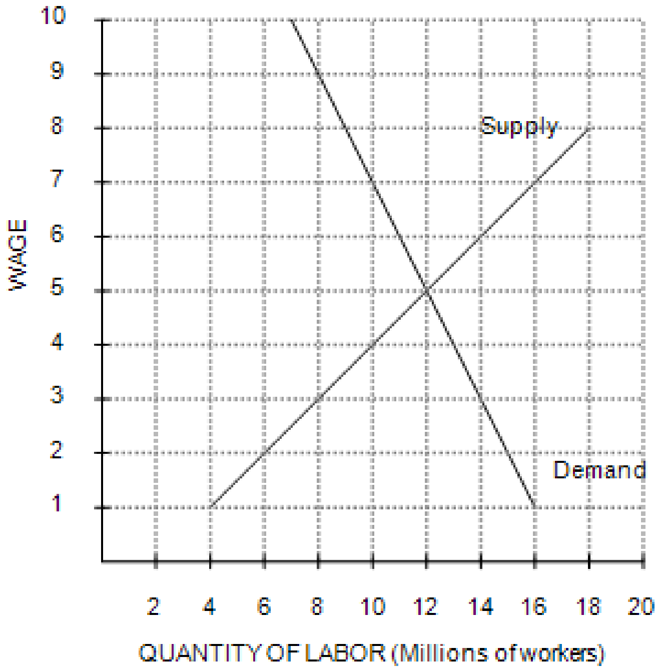
8. The labor supply curve reflects how workers' decisions about the labor-leisure tradeoff respond to changes in the opportunity cost of leisure.
   a. True
   b. False

Indicate the answer choice that best completes the statement or answers the question.

9. The ownership of human capital
   a. is typically embodied in related physical capital.
   b. may be subject to government restrictions on transferability.
   c. is not easily transferable.
   d. often leads to lower wages.

10. Economists who attempt to explain the increasing earnings gap between skilled and unskilled workers offer two main hypotheses:
   a. one hypothesis emphasizes education, and the other emphasizes compensating differentials.
   b. one hypothesis emphasizes education, and the other emphasizes international trade.
   c. one hypothesis emphasizes international trade, and the other emphasizes technology.
   d. one hypothesis emphasizes technology, and the other emphasizes compensating differentials.

Figure 19-1



11. **Refer to Figure 19-1.** If the minimum wage in this market is $6, then
    a. employment is 12 million.
    b. employment is 14 million.
    c. there is a surplus of 1 million workers.
    d. there is a surplus of 3 million workers.

12. **Refer to Figure 19-1.** Suppose the local labor market was in equilibrium to begin with but then the largest local employer decided to change its compensation scheme to $6. Which of the following compensation schemes could the graph be illustrating?
    a. An efficiency wage
    b. Discrimination
    c. A compensating differential
    d. The superstar phenomenon

13. **Refer to Figure 19-1.** What is the change in employment of having the minimum wage at $6 instead of $5?
    a. Two million jobs are gained.
    b. No jobs are gained or lost.
    c. One million jobs are lost.
    d. Three million jobs are lost.

Works Cited:

- Mankiw, Gregory. *Principles of Microeconomics. 9th ed. Cengage Learning. 2021*
- https://www.ssc.wisc.edu/~ekelly/econ101/