

# Chapter 12 Testbank

1. In competitive labor markets, \_\_\_\_ demand labor and \_\_\_\_ supply labor.

- A. firms; labor unions
- B. labor unions; firms
- C. workers; firms
- D. firms, workers

Badr works for a landscape contractor, generating gross revenues of \$50 per hour. Non-labor variable costs total \$10 per hour. Badr loves to garden, and would be willing to work for \$15 per hour. Assume that the labor market is perfectly competitive.

2. Badr's reservation price for an hour of work is \_\_\_\_\_ per hour.

- A. \$10
- B. \$15
- C. \$50
- D. \$40

3. For each hour that Badr works, the landscape company's net benefits are

- A. equal to Badr's reservation price.
- B. \$50 minus Badr's wage.
- C. \$40 minus Badr's wage.
- D. zero, because non-labor variable costs and Badr's wage completely consume revenues.

4. The difference between the net revenue generated by Badr and Badr's reservation price will eventually
- A. be captured by Badr in the form of rent.
  - B. be captured by Badr's employer in the form of profit.
  - C. cause wages in the landscape market to fall to \$15.
  - D. be split evenly between Badr and the landscape company.
5. In a competitive labor market, if a firm pays a worker less than that worker's VMP, then in the long run
- A. the firm will earn positive economic profits.
  - B. competing firms will be able to hire the worker away, driving wages up to VMP.
  - C. the worker will have no incentive to work hard.
  - D. the supply of workers will fall.
6. What is the extra output received from the hiring of an extra worker?
- A. Total product divided by Wage
  - B. Wage times Marginal Product
  - C. Marginal product
  - D. Average product

7. The value of marginal product

- A. equals marginal product times net price.
- B. equals total product divided by net price.
- C. equals marginal product divided by net price.
- D. equals average product times the wage rate.

8. The marginal product of the 14<sup>th</sup> worker is 8 and the firm sells its output for \$4 per unit. If labor is the only variable cost, the value of the 14<sup>th</sup> worker's marginal product is

- A. \$2.
- B. \$4.
- C. \$12.
- D. \$32.

The relationship between labor usage and output at the local coffee shop is summarized in the table below. The price of a cup of espresso is \$1.25 and no other inputs are required.

<u>Labor Input</u>	<u>Cups of espresso</u>
0	0
1	25
2	45
3	60
4	70
5	75

9. The marginal product of the fourth worker is \_\_\_\_\_.

- A. 70
- B. 60
- C. 17.5
- D. 10

10. The marginal product of the third worker is \_\_\_\_\_ than the marginal product of the second worker which means \_\_\_\_\_.
- A. greater; diminishing returns are absent
  - B. less; diminishing returns are present
  - C. neither greater nor less; the third worker will be hired
  - D. less; the third worker will never be hired
11. The benefit to the coffee shop of hiring the fifth worker is
- A. 70 cups of espresso.
  - B. 75 cups of espresso.
  - C. \$93.75.
  - D. \$6.25.
12. The value of marginal product for the first worker is \_\_\_\_\_.
- A. 25 cups of espresso
  - B. \$31.25
  - C. \$25
  - D. \$20
13. The most the coffee shop would pay the third worker is \_\_\_\_\_.
- A. \$75
  - B. \$60
  - C. \$18.75
  - D. \$15

Samira owns a candy factory and hires workers in a competitive labor market to pack cases of candy. The company's weekly output of cases of candy varies with the number of workers hired, as shown in the table:

Number of workers	Cases/week
0	0
1	160
2	310
3	450
4	580
5	700
6	810

14. The marginal product of the fourth worker is \_\_\_\_\_.
- A. 110
  - B. 130
  - C. 140
  - D. 145
15. If each case sells for \$5 more than the cost of the materials used in producing it, then the value of marginal product for the 2<sup>nd</sup> worker is \_\_\_\_\_.
- A. \$150
  - B. \$310
  - C. \$315
  - D. \$750

16. If each case sells for \$3 more than the cost of the materials used in producing it, then the most Samira would pay the 5<sup>th</sup> worker is \_\_\_\_\_.

A. \$330

B. \$360

C. \$390

D. \$120

17. If each case sells for \$5 more than the cost of the materials used in producing it and the competitive market wage is \$650/week, how many workers should Samira hire?

A. 5

B. 4

C. 3

D. 2

Gino's Pizza shop hires cooks in a competitive market. The raw material required to make each pizza costs \$5. Daily output at Gino's Pizza varies with the number of workers hired, as shown in the table below:

Number of workers	Pizzas/ Day
0	0
1	16
2	36
3	54
4	70
5	84
6	96

18. The marginal product of the 3<sup>rd</sup> worker is \_\_\_\_\_.
- A. 12
  - B. 14
  - C. 16
  - D. 18
19. If the pizzas sell for \$10/pie, and the competitive market wage is \$80 per day, Gino will hire \_\_\_\_\_ workers and produce \_\_\_\_\_ pizzas per day.
- A. 5; 84
  - B. 2; 36
  - C. 3; 54
  - D. 4; 70

20. If the pizzas sell for \$8 per pie and the ingredients cost \$5 per pie, what is the value marginal product for the 4<sup>th</sup> worker?

- A. \$96
- B. \$112
- C. \$48
- D. \$128

The chart below describes the short run productivity of workers at PaperPushers Inc., an office support firm that has no variable costs other than labor.

Workers	Pages per Hour
1	40
2	75
3	105
4	125
5	140
6	150
7	155

21. Because productivity at PaperPushers displays \_\_\_\_\_ the firm should \_\_\_\_\_

- A. diminishing marginal productivity; hire as few workers as possible.
- B. constant marginal productivity; hire as many workers as it can.
- C. diminishing marginal productivity; hire workers only if VMP is greater than or equal to the product price.
- D. diminishing marginal productivity; hire workers only if VMP is greater than or equal to the workers' wage.



22. If the market price is \$5 per page, the first worker's VMP is \_\_\_\_ and the third worker's VMP is \_\_\_\_.

- A. \$20; \$525
- B. \$200; \$150
- C. \$200; \$525
- D. \$20; \$15

23. The VMP of the sixth worker is \_\_\_\_\_ than the VMP of the fourth worker because

- A. less; the firm experiences economies of scale.
- B. less; the sixth worker is less skilled than the fourth worker.
- C. less; the firm experiences diminishing returns to inputs.
- D. more; the workers can specialize and exploit comparative advantages.

24. If the workers are producing a product that sells for \$2.00 per page this firm will

- A. hire all seven workers if wages are \$20.
- B. hire all seven workers if wages are \$10.
- C. hire all seven workers only if wages are \$5 or less.
- D. always hire the seventh worker.

25. If the price of pages increases, the demand for workers will
- A. remain the same, as the workers are hired in the labor market and the product is sold in the paper processing market.
  - B. increase because the workers will be motivated to produce more.
  - C. increase because the value of what the workers make has increased.
  - D. decrease because at a higher sales price the firm will not have to produce as much output.
26. The optimal number of workers for a perfectly competitive firm to hire occurs when
- A. total labor costs equal total revenues.
  - B. diminishing marginal productivity is first experienced.
  - C. the wage rate equals the marginal product of the last worker.
  - D. the wage rate equals the value of marginal product of the last worker.
27. In the market for labor, the demand function describes
- A. the number of workers who are willing to work at each wage.
  - B. the output of workers who are paid a given wage.
  - C. the number of workers a firm is willing to hire at each wage.
  - D. the demand for the firm's output.
28. The demand function curve for workers
- A. is dependent on the demand for the product that they make.
  - B. is stable as there is no substitute for human labor.
  - C. shifts to the right when the population decreases.
  - D. shifts to the right when technology allows a firm to replace human labor with machines.

29. Technological advances shift the demand for labor

- A. to the left.
- B. to the right.
- C. to the left if technology is a complement of labor, but to the right if it is a substitute.
- D. to the right if technology is a complement of labor, but to the left if it is a substitute.

30. If demand for the product you make were to suddenly decline you would expect the equilibrium price of the product to fall,

- A. causing an increase in the VMP of each worker.
- B. causing a decrease in the VMP of each worker.
- C. but no change in the VMP of each worker because product prices don't affect worker productivity.
- D. causing the marginal productivity of each worker to fall.

31. A firm is unlikely to hire a worker if

- A. the worker's contribution to the firm's revenue is less than his or her wage.
- B. the worker's contribution to the firm's profit is less than his or her wage.
- C. by hiring that last worker the firm begins to experience diminishing marginal productivity of labor.
- D. the minimum wage set by law is less than the equilibrium wage in the market.

32. Karim works for a perfectly competitive firm where he receives a wage rate of \$15. One can infer that
- A. Karim's marginal product is at least \$15.
  - B. the price of the firm's output is at least \$15.
  - C. Karim's reservation wage is exactly \$15.
  - D. Karim's value of marginal product is at least \$15.
33. The general rule governing the hiring of workers is to
- A. minimize average labor costs.
  - B. equate marginal labor costs to marginal labor benefits.
  - C. equate total labor costs to total labor benefits.
  - D. maximize marginal product.
34. In order to maximize profits or minimize losses, a firm facing a perfectly competitive labor market must hire workers until
- A. the extra revenue from the last worker equals the extra profit.
  - B. the extra revenue from the last worker equals the extra cost.
  - C. the marginal wage rate equals marginal product.
  - D. the marginal product of workers begin to decline.

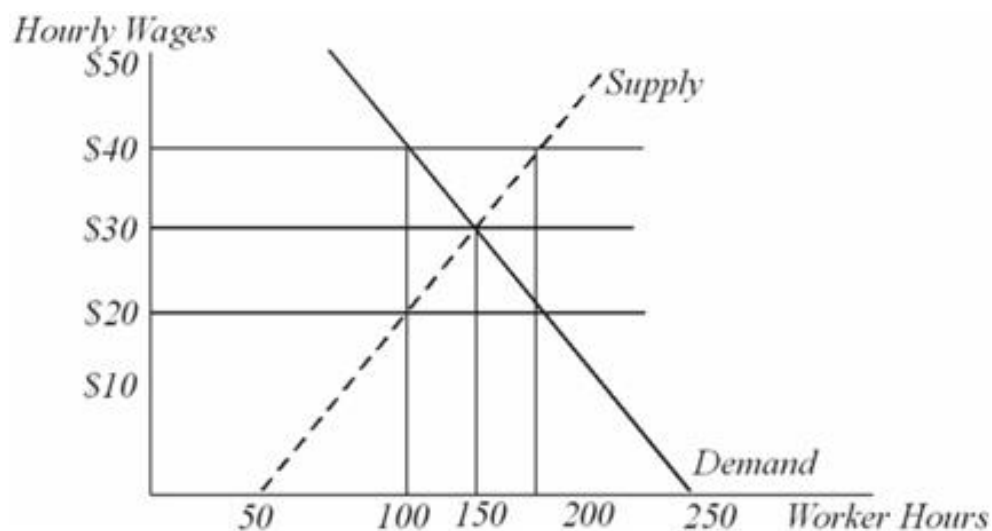
35. The value of marginal product for the last worker hired is \$20 and the wage rate is \$25. The firm
- A. should reduce its labor usage.
  - B. should increase its labor usage.
  - C. should keep the last worker it hired.
  - D. is cost minimizing.
36. The labor market model that predicts an equilibrium wage equal to VMP applies
- A. only to markets for unskilled labor.
  - B. only to competitive labor markets.
  - C. to all labor markets.
  - D. to labor markets that are exempt from minimum wage laws.
37. If a labor market does not meet the conditions of a perfectly competitive market
- A. wages will be higher than in a competitive labor market.
  - B. the invisible hand will force the labor market to behave as if it were perfectly competitive.
  - C. workers will unionize to force competition.
  - D. wages may be either higher or lower than they would be in a competitive market.
38. In a model of a competitive labor market, the supply curve would shift to the right if
- A. the government relaxed its immigration laws.
  - B. a cultural or social change occurred such that fewer mothers returned to work after their children were born.
  - C. firms replaced human workers with robots.
  - D. firms opened more plants overseas.

39. To derive the labor demand curve for a particular market, one
- A. adds up the value of marginal product curves at all labor usage levels.
  - B. adds up the marginal product curves at the various wage rates.
  - C. adds up the value of marginal product curves at the various wage rates.
  - D. adds up the available workers at the various wage rates.
40. The value of marginal product curve is downward sloping because
- A. firms must lower price to sell more.
  - B. at lower wages, only less qualified workers are available.
  - C. of the law of diminishing marginal product.
  - D. profits decline as more workers are hired.
41. Firms and individuals do not technically buy and sell the labor input; renting is a more accurate description. Therefore,
- A. the supply and demand model does not apply.
  - B. the basic model of supply and demand can be applied to competitive labor markets.
  - C. equilibrium will never occur.
  - D. firms will always underpay workers.

42. In a competitive labor market, it is observed that the equilibrium wage rate and employment level have both risen. One can infer that

- A. the supply of labor has increased.
- B. the demand for labor has fallen.
- C. the demand for labor has increased.
- D. the supply of labor has decreased.

Assume that this graph illustrates a perfectly competitive labor market.



43. Equilibrium in this labor market is at a wage of \_\_\_\_\_ and employment of approximately \_\_\_\_\_ worker hours.

- A. \$30; 100
- B. \$30; 150
- C. \$20; 175
- D. \$20; 100

44. According to this graph, \_\_\_\_\_ worker hours would be performed on a volunteer (unpaid) basis.

- A. 0
- B. 50
- C. 100
- D. 250

45. Suppose a minimum wage law required the wage to be at least \$20 in this market. If that happened,

- A. there would be an excess supply of worker hours.
- B. there would be excess demand for worker hours.
- C. demand for worker hours would shift to the right.
- D. there would be no change in the hourly wage paid or the number of worker hours hired.

46. In this market, at a wage of \$40,

- A. the market would be in equilibrium.
- B. there would be more people wanting to work than there would be job openings at firms.
- C. firms would not be able to find enough workers to satisfy the firms' demand for workers.
- D. approximately 175 worker hours would be hired.

47. If the supply of worker hours in this market shifted to the right

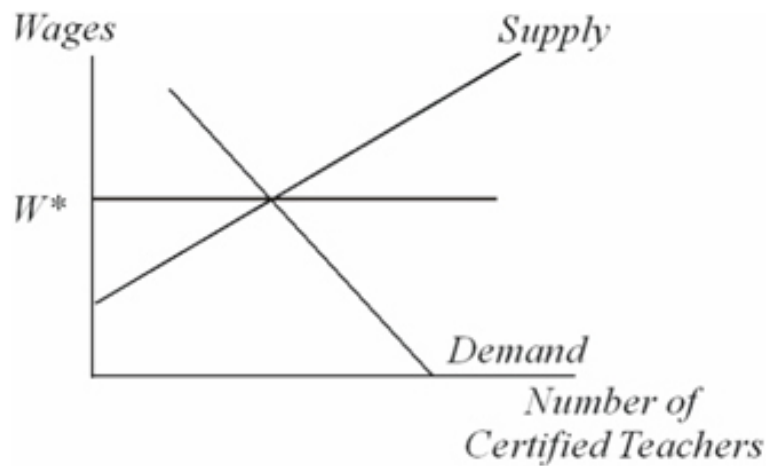
- A. the equilibrium wage would fall and the number of worker hours would increase.
- B. the equilibrium wage and the number of worker hours would increase.
- C. the equilibrium wage would stay the same, but the number of worker hours would increase.
- D. the equilibrium wage would fall and the number of worker hours would decrease.



48. In a competitive labor market, the equilibrium wage rate is determined by

- A. government regulation.
- B. employers.
- C. the intersection of labor demand and labor supply.
- D. employees.

Suppose that this graph describes the current labor market for high school teachers:



49. If wages are currently  $W^*$ ,

- A. there will be a shortage of certified teachers.
- B. there will be a surplus of certified teachers.
- C. the market is in equilibrium: neither a shortage nor a surplus exists.
- D. teachers are underpaid.

50. Suppose supply were to shift to the left. Why might that happen?

- A. Distance learning and computer technology replace human teachers.
- B. Women enter the workforce in greater numbers.
- C. Immigration by families with children increase the need for more teachers.
- D. More attractive employment opportunities become available in health careers.

51. Given the wage equal to  $W^*$ , immediately following a shift of the supply curve to the left

- A. there will be a shortage of certified teachers.
- B. there will be an excess supply of certified teachers.
- C. the reservation wage of each remaining teacher will fall.
- D. the market will be in equilibrium.

52. Suppose the market were to re-equilibrate following a shift of the supply curve to the left. At the new equilibrium, wages would be

- A. higher, and more teachers would be hired.
- B. higher, and fewer teachers would be hired.
- C. the same, but fewer teachers would be hired.
- D. the same, and more teachers would be hired.

53. A reduction in the workers' marginal productivity would result in

- A. an increase in labor supply.
- B. an increase in equilibrium employment level.
- C. a reduction in the equilibrium wage rate.
- D. a decrease in labor supply.

54. A decrease in demand for a firm's output results in a(n)

- A. increase in labor supply.
- B. decrease in labor demand.
- C. decrease in labor supply.
- D. increase in labor demand.

55. If a perfectly competitive firm finds that the productivity of its workers has increased, then

- A. labor supply increases.
- B. labor demand decreases.
- C. the wage rate decreases.
- D. labor demand increases.

Lulu Market increased wages for their cashiers from \$7/hr to \$9/hr. Badr, a cashier at Lulu, now works 30hrs/week instead of the 25hrs/week hours Badr used to work before the wage increase. On the other hand Omar, also a cashier at Lulu decreased his work time by 5hrs/week after the wage increase and started to spend more time watching TV.

56. Badr's behavior can be best explained as the \_\_\_\_\_ of high wage rates.

- A. demand effect
- B. supply effect
- C. income effect
- D. substitution effect

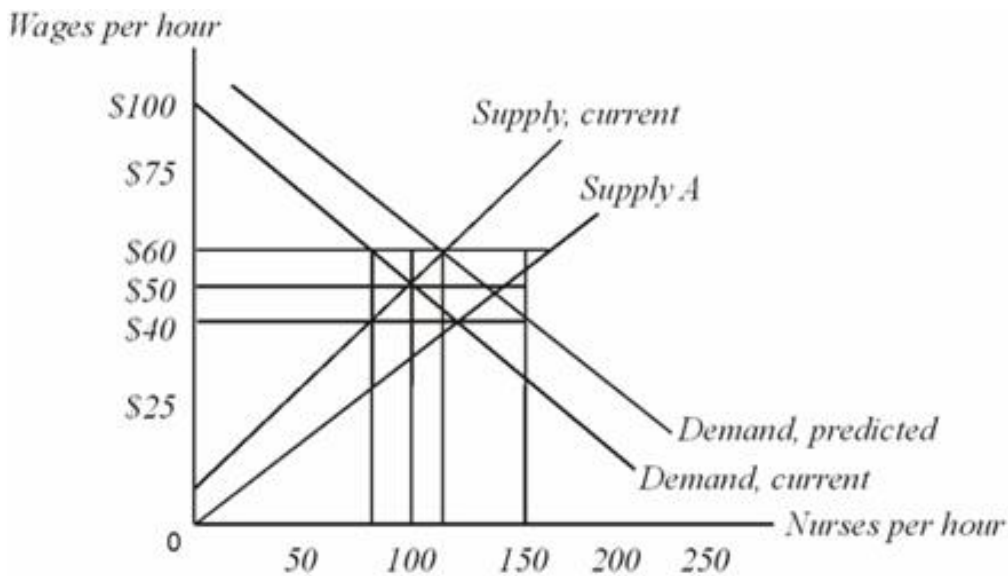
57. Omar's behavior can be best explained as the \_\_\_\_\_ of high wage rates.

- A. demand effect
- B. supply effect
- C. income effect
- D. substitution effect

58. In models of labor supply, the opportunity cost of spending an hour enjoying leisure activities is

- A. the price paid to engage in those activities.
- B. the hourly wage that could have been earned during that hour.
- C. zero.
- D. one-and-a-half times a person's regular wage.

Suppose that demographers predict that the average age of the population will increase. One result will be an increase in the demand for nurses. Assume that the graph below describes the current nursing labor market in a mid-sized city, and that the market is a competitive one.



59. Suppose that several years ago the supply of nurses in this city was as shown as Supply A. What might explain the change from Supply A to Supply, current?

- A. an increase in nurses' wages
- B. a decrease in nurses' wages
- C. increased immigration of people trained as nurses in other countries.
- D. increased employment opportunities for people who would have once chosen nursing as a career.

60. Suppose that several years ago the supply of nurses in this city was as shown as Supply A. Suppose further that the nursing market had been in equilibrium at that time and that wages did not change when supply changed to Supply, current. (Assume that demand has remained stable at Demand, current.) The result is that nurses earn \_\_\_\_\_ and
- A. \$40; more than 100 nurses work per hour.
  - B. \$40; there is a nursing shortage.
  - C. \$50; there are many nurses willing to work for \$40 who are unable to find a job.
  - D. \$50; other labor markets adjust to restore equilibrium in all markets.
61. The shift in supply from Supply A to the current Supply means that if demand increases as predicted (to Demand, predicted)
- A. wages will have to rise to \$60 to avoid a nursing shortage.
  - B. wages will have to rise to \$50 to avoid a nursing shortage.
  - C. a wage of \$40 will be sufficient to achieve equilibrium.
  - D. a wage of \$50 will yield an excess supply of nurses.
62. Suppose the market started out in equilibrium, with Supply A and the current demand in effect. Relative to that situation, the shift in supply from Supply A to Current Supply together with an increase in demand to Demand, predicted
- A. cancel each other out, so that neither wages nor number of nurses changes.
  - B. cause the number of nurses to increase, but the wages will change minimally if at all.
  - C. cause wages to increase, but the number of nurses will change minimally if at all.
  - D. cause both wages and the number of nurses to increase.

63. In the long run, if the nursing market is perfectly competitive, the demographic shift that increases the demand for nurses is likely to
- A. cause nurses' wages to increase, providing a greater incentive to choose nursing as a career.
  - B. cause the working conditions of nurses to worsen, providing a disincentive to choose nursing as a career.
  - C. cause a persistent shortage of nurses because the market undervalues nurses.
  - D. shift back to the original demand as needs are unmet.
64. Taken together, factors like education, training, experience, intelligence, and work habits are known as
- A. statistical discrimination factors.
  - B. human capital.
  - C. productivity factors.
  - D. learned behaviors.
65. Individuals have \_\_\_\_ control over the human capital that they bring to the labor market because
- A. no; human capital is innate.
  - B. complete; human capital formation is the result of hard work.
  - C. partial; some human capital is innate and some is the result of hard work.
  - D. no; human capital is largely a matter of luck.

66. Which of the following factors is not part of one's stock of human capital?

- A. I.Q.
- B. Years of education
- C. The current level of unemployment
- D. Ability to concentrate

67. Salman and Alia are identical in every way except for one: Alia has an IQ score 10 points higher than Salman. All else equal, human capital theory would predict Alia

- A. and Salman will earn the same.
- B. will earn exactly 10% more than Salman.
- C. will earn less than Salman.
- D. will earn more than Salman.

68. When calculating the worthiness of a college education, one must use \_\_\_\_\_ values because the costs and benefits \_\_\_\_\_.

- A. nominal; are estimated
- B. discounted; accumulate over time
- C. real; cannot keep pace with inflation
- D. non-monetary; are largely non-monetary



Amina has an undergraduate degree in economics and has been working as a utility rate analyst at the local electricity utility. If she continues on her present career path, the present value of her lifetime earnings is \$250,000. If she takes two years off and gets an MS degree in economics, the present value of her lifetime earnings is \$275,000. The annual cost of an MS degree in economics is \$15,000 and the interest rate is 8%.

69. The discounted (present value) cost of Amina's graduate degree in economics is \_\_\_\_\_.

- A. \$30,000
- B. more than \$30,000
- C. more than \$15,000 but less than \$30,000
- D. \$15,000

70. The discounted (present value) benefit of Amina's benefits to getting a graduate degree is \_\_\_\_\_.

- A. \$275,000
- B. \$250,000
- C. \$25,000
- D. -\$5,000

71. Amina should

- A. get the MS degree because her lifetime earning will increase \$25,000.
- B. get the MS degree because more education is always better than less education.
- C. not get the MS degree because \$30,000 is greater than \$25,000.
- D. not get the MS degree if the present value of cost exceeds the present value of benefit.

72. A group of workers who collectively bargain with employers for higher wages and better working conditions is called a

- A. labor monopsony.
- B. labor union.
- C. labor collective.
- D. closed shop.

73. A labor union in the labor market is analogous to a(n) \_\_\_\_\_ in the output market.

- A. monopsony
- B. oligopoly
- C. cartel
- D. perfect competitor

74. The reason nonunion firms do not always drive the union firms out of business is

- A. markets are not competitive.
- B. consumers look for the union label.
- C. union firms hire more selectively, employing workers with greater human capital.
- D. union firms cut corners in other areas.

75. Which of the following is not a reason why union firms can successfully compete with nonunion firms?

- A. Employee morale may be higher at union firms.
- B. Communication between management and workers is more formal and hence improved at union firms.
- C. Labor turnover is lower at union firms.
- D. Union firms are legally protected from price competition from nonunion firms.

76. Which of the following is not true of labor unions?

- A. They seek to increase members' wages.
- B. They seek to increase medical benefits paid to members.
- C. They bargain for safer working conditions.
- D. They encourage management to take steps to maximize profits.

77. The union wage premium refers to

- A. the dues one must pay in order to join a union.
- B. the union wage rate minus union membership dues.
- C. the deduction for union insurance.
- D. the amount by which union wages exceed nonunion wages.

78. Differences in wage rates associated with differences in working conditions are called

- A. compensating income differentials.
- B. equalizing wage ratios.
- C. conditional differentials.
- D. compensating wage differentials.

79. Primary and secondary school teachers earn less than others with similar educational requirements. Part of the difference is due to

- A. a work schedule that coincides with their children's schedule.
- B. a lack of union representation.
- C. discrimination.
- D. society's devaluing of education.

80. Jobs in which there is a higher risk of injury or death will

- A. include better insurance benefits than similar jobs.
- B. pay less than otherwise similar jobs.
- C. require regulation by the government.
- D. pay more than otherwise similar jobs.

81. An arbitrary preference by an employer for one group of workers over another is termed

- A. customer discrimination.
- B. statistical discrimination.
- C. employer discrimination.
- D. employee discrimination.

82. Hassan has just been offered a job that pays much more than other jobs requiring the same skills, education, and hours. Hassan can infer that
- A. the job will be more prestigious.
  - B. the job will involve adverse working conditions.
  - C. the employer is not greedy.
  - D. the job will also offer generous benefits.
83. Suppose that welders working on offshore oil rigs earn 25% more than welders working on land based oil rigs. The difference in earnings is best explained by
- A. differences in education.
  - B. discrimination.
  - C. differences in working conditions.
  - D. differences in abilities.
84. For a given occupation, jobs with a large social approval factor will pay \_\_\_\_\_ the average salary while jobs with a large social disapproval factor will pay \_\_\_\_\_.
- A. more than; the average
  - B. the same as; less
  - C. less than; more
  - D. more than; less than

Fawzi just graduated from the university and has three job offers: teaching at a prestigious private high school nine months a year with summers off, working forty hours a week at a bank in a small city, and working more than sixty hours a week for a high-powered investment firm.

85. The annual salary for each of these offers is probably:
- A. lowest for the investment firm job, middling for the bank job, and highest at the high school.
  - B. lowest for the bank job, middling for the investment firm, and highest at the high school.
  - C. lowest at the high school, middling for the investment firm, and highest for the bank job.
  - D. lowest at the high school, middling for the bank job, and highest at the investment firm.
86. Suppose all of the jobs paid exactly the same annual salary, and that most people prefer leisure to work, all else equal. If that were the case,
- A. there would be a shortage of high school teachers.
  - B. there would be a surplus of investment advisors.
  - C. there would be a surplus of high school teachers.
  - D. people would naturally sort themselves into the job that best suits their talents.
87. Suppose all of the jobs currently offer exactly the same annual salary, and that most people prefer leisure to work, all else equal. In order to attract workers,
- A. the private high school will have to offer a higher salary than the others.
  - B. the bank will have to offer a higher salary than the Investment firm.
  - C. the Investment firm will be able to offer a lower salary than the others.
  - D. the Investment firm will have to offer a higher salary than the others.

88. Assume that the average male wage rate is 20% higher than the average female wage rate. One can infer that
- A. this is evidence of discrimination.
  - B. employers undervalue female employees.
  - C. customers overvalue male employees.
  - D. this is evidence of discrimination only if all factors affecting productivity are equal.
89. Bassam is getting a divorce. He selects a female lawyer at a large law firm because he believes they are more aggressive in obtaining favorable settlements in divorce cases. Bassam's behavior is an example of \_\_\_\_\_ discrimination.
- A. market
  - B. employer
  - C. employee
  - D. customer
90. Consumer discrimination exists when consumers are willing to pay \_\_\_\_\_ for a good or service produced by the favored group, even though the quality of the good or service is \_\_\_\_\_.
- A. more; better
  - B. less; worse
  - C. more; worse
  - D. more; the same

91. Males major in engineering much more frequently than females. Starting salaries for engineers (male or female) are very high. As a result, the observed wage gap for all college grads is \_\_\_\_\_ than wage gaps in specific majors because of \_\_\_\_\_.
- A. larger; employer discrimination
  - B. smaller; academic discrimination
  - C. larger; customer discrimination
  - D. larger; choices made by male and female students
92. Samia and Samer both work for the same firm on the same career ladder. Each has the same stock of human capital except for one difference: Samia has worked at the firm for 10 continuous years but Samer has had two leaves of absence mixed in with his 10 years of experience with the firm. One would expect
- A. Samia and Samer to earn the same income.
  - B. Samer to earn more than Samia.
  - C. Samia to earn twice as much as Samer.
  - D. Samia to earn more than Samer.
93. Suppose males place less importance on the social approval of their job and more on the income they receive. The gender wage gap would therefore be \_\_\_\_\_ than if this difference did not exist because of \_\_\_\_\_.
- A. smaller; compensating wage differentials
  - B. larger; choices made by workers
  - C. larger; employer discrimination
  - D. smaller; the smaller importance assigned to social approval



94. A winner-take-all labor market is one in which
- A. large differences in human capital translate into small differences in wages.
  - B. one worker receives all of the available compensation and the rest receive nothing.
  - C. small differences in human capital translate into small differences in wages.
  - D. small differences in human capital translate into large differences in wages.
95. Suppose that some professional football players earn over \$6 million per year while the average salary is \$1.2 million. The explanation for this rests with
- A. a winner-take-all labor market.
  - B. the best players being nearly six times better than average players.
  - C. undisciplined owners overspending on players' salaries.
  - D. racial discrimination.
96. According to Professor Rawls, if income was given to a group of people and those people had no idea of their talents, they would likely prefer an income distribution that rewarded
- A. innovation.
  - B. high I.Q.
  - C. artistic gifts.
  - D. everyone with an equal share of income.

97. The reason people in Professor Rawls' thought experiment would choose a uniform distribution of income is
- A. concern for the welfare of their fellows.
  - B. they fear ending up in a disadvantaged position.
  - C. people are risk seeking.
  - D. it is the easiest distribution to implement.

98. The degree of income inequality produced by competitive markets, in Professor Rawls' view, is
- A. minor.
  - B. greater than the amount people would prefer.
  - C. consistent with the ideal amount.
  - D. acceptable.

Malik is offered a job driving the campus shuttle bus from 4 P.M. to 6 P.M. each Monday. His reservation wage for this job is \$7/hour.

99. If the campus transportation director offers Malik \$50/hour, how much economic surplus will he enjoy as a result of accepting the job?
- A. \$36
  - B. \$43
  - C. \$50
  - D. \$86

100. Suppose the campus transportation director offers Malik \$50/hour, and Malik doesn't have to share his income with anyone else. Will Malik accept this job?
- A. Yes, accepting the job means a positive surplus for Malik.
  - B. No, accepting the job means a negative surplus for Malik.
  - C. Yes, although accepting the job means a negative surplus for Malik, still it's better than having no job.
  - D. No, although accepting the job means a positive surplus for Malik, still it's not the best option for him.
101. Now suppose the director offers Malik \$50/hour, but also announces that the earnings from the job will be divided equally among Malik and the 99 other students who live in Malik's dorm. How much economic surplus will Malik enjoy now for accepting the job?
- A. \$0.50
  - B. \$1.00
  - C. -\$6.00
  - D. -\$6.50
102. Now suppose the director offers Malik \$50/hour, but also announces that the earnings from the job will be divided equally among Malik and the 99 other students who live in Malik's dorm. Will Malik still accept this job?
- A. Yes, accepting the job means a positive surplus for Malik.
  - B. No, accepting the job means a negative surplus for Malik.
  - C. Yes, although accepting the job means a negative surplus for Malik, still it's better than having no job.
  - D. No, although accepting the job means a positive surplus for Malik, still it's not the best option for him.

103. Now suppose the director offers Malik \$50/hour, but also announces that the earnings from the job will be divided equally among Malik and four other students. Will Malik still accept this job?

- A. No, because the other students are free riders.
- B. No, because it is not fair for Malik to do the work and then have to share the wage.
- C. Yes, because \$50 divided by five is greater than Malik's reservation wage.
- D. Yes, because Malik believes in the Rawlsian theory of justice.

Ilhame is offered a job answering the phone in the university's economics department during lunchtime, from noon to 1 P.M., Tuesdays and Thursdays. Her reservation wage for this job is \$15/hour.

104. If the department chair offers Ilhame \$150/week, how much economic surplus will she enjoy each week as a result of accepting the job?

- A. \$15
- B. \$120
- C. \$135
- D. \$150

105. If the department chair offers Ilhame \$150/week, and Ilhame doesn't have to share her income with anyone else. Will Ilhame accept this job?

- A. Not enough information.
- B. Yes, accepting the job means a positive surplus for Ilhame.
- C. No, accepting the job means a negative surplus for Ilhame.
- D. Yes, although accepting the job means a negative surplus for Ilhame, still it's better than having no job.

106. Now suppose the department chair announces that the \$150/week earnings from the job will be divided equally among Ilhame and 299 other students in the department. How much economic surplus will Ilhame enjoy each week if she accepts the job?

- A. \$0.50
- B. -\$14.00
- C. -\$29.00
- D. -\$29.50

107. When the government transfers resources to the poor in the form of a good or service, it is called

- A. a tax credit.
- B. Aid to Families with Dependent Children.
- C. an in-kind transfer.
- D. a regressive tax.

108. To say that a given welfare program is means-tested indicates that

- A. in order to qualify, one must have the means.
- B. the size of the payment reflects the mean value of consumption based on family size.
- C. in order to qualify, one must show that one means to find a job.
- D. the more income one earns, the smaller the size of the benefit.

109. An in-kind transfer payment to the poor is

- A. made out of kindness.
- B. a cash payment.
- C. a benefit in the form of a good or service.
- D. less costly to provide compared to a cash payment.

110. A welfare payment that is reduced when the recipient earns more income is a(n)

- A. fair benefit.
- B. inducement for the poor to find employment.
- C. unconditional benefit.
- D. means-tested benefit.

Lamya is a welfare recipient who qualifies for two means-tested cash benefits. If she does not earn any income, she receives \$225 from each benefit. For each dollar she earns (which her employer is required to report to the welfare agency), each benefit is reduced by 75 cents until the benefit equals zero.

111. In the absence of earnings, Lamya will receive \_\_\_\_\_ in from each, for a total of \_\_\_\_\_ in benefits.

- A. \$225; \$225
- B. \$225; \$450
- C. \$225; \$400
- D. \$200; \$400

112. Suppose Lamya earns \$10. She will lose \_\_\_\_\_ from each benefit, for a total loss of \_\_\_\_\_.

- A. \$.75; \$1.00
- B. \$7.50; \$7.50
- C. \$7.50; \$15.00
- D. \$.75; \$1.50

113. If Lamya earns \$150 she will receive total benefits in the amount of

- A. \$75.
- B. \$325.
- C. \$225.
- D. 0.

114. If Lamya only values income and not how the income was acquired, then she must earn \_\_\_\_\_ to be as well off as when she earns \_\_\_\_\_ and receives benefits.

- A. \$300; nothing
- B. \$150; \$50
- C. \$450; nothing
- D. \$350; nothing

115.If Lamyra values income and not the source of the income, then if she can only earn \$400 he will choose to

- A. work.
- B. not work and refuse the benefits.
- C. not work and accept the benefits.
- D. work part time.

116.When Lamyra's earnings are less than \$300, each extra dollar she earns causes her total income (earnings plus benefits) to

- A. fall by 25 cents.
- B. rise by 50 cents.
- C. fall by 50 cents.
- D. rise by 75 cents.

117.Arguments **in favor** of programs that tax income to redistribute wealth include:

- A. these programs provide a financial incentive to work harder.
- B. these programs provide a financial incentive to invest in human capital.
- C. these programs help to reduce poverty.
- D. these programs discourage firms from discriminating in their hiring.



118. Arguments **against** programs that tax income to redistribute wealth include:

- A. these programs increase the wealth differences between the rich and poor, increasing crime rates.
- B. these programs penalize people who are productive.
- C. these programs penalize people who are unable to work through no fault of their own.
- D. these programs prevent the economy from reaching equilibrium in the labor market.

119. A(n) \_\_\_\_\_ involves giving all citizens a substantial lump sum payment that is reduced at a rate of less than 100% as income is earned.

- A. positive income tax
- B. in-kind transfer
- C. unearned income tax credit
- D. negative income tax

120. The level of income used to define being poor is called the

- A. relative measure of poverty.
- B. absolute measure of poverty.
- C. poverty threshold.
- D. median income threshold.

121. A minimum wage law prohibits employers from paying workers less than a specified hourly wage.

If the minimum wage is above the equilibrium wage

- A. there will be excess supply of labor.
- B. there will be excess demand for labor.
- C. it creates a price ceiling.
- D. it is the most efficient way to assist the working poor.

122. Imposing a minimum wage in the labor market

- A. makes all workers better off.
- B. lowers labor costs.
- C. increases the size of the total wage bill.
- D. makes some workers worse off.

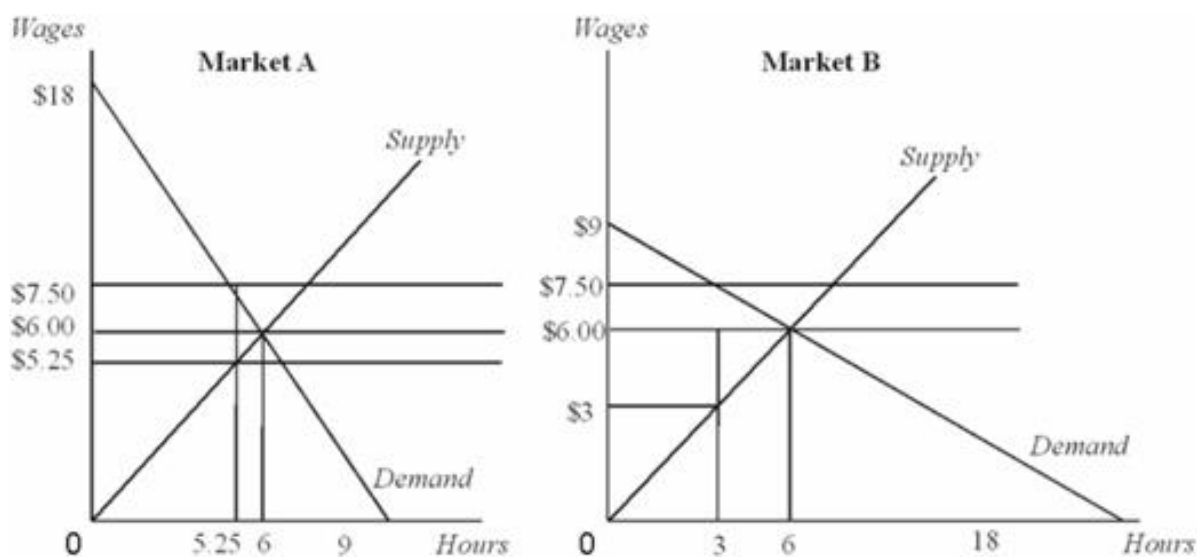
123. Suppose the elasticity of labor demand is less than 1 in absolute value. Imposing a minimum wage in the labor market will

- A. increase the incomes of all current workers.
- B. result in no unemployment.
- C. increase the size of the firms' total wage bill.
- D. make few workers better off.

124. If the elasticity of demand for labor is greater than one, then imposing a minimum wage will cause

- A. the firms' total wage bill to fall.
- B. employment to rise.
- C. the firms' total wage bill to rise.
- D. no adverse employment effects.

There are two separate labor markets in Toontown, illustrated by the graphs below. Both labor markets currently pay \$6.00 per hour, and both require the same skills and qualifications. The Toontown City Council is considering enacting a \$7.50 living wage ordinance, which would require all Toontown employers to pay wages of at least \$7.50 per hour.



125. The current wage of \$6.00 is

- A. an equilibrium in Market A, but too low in Market B.
- B. an equilibrium in Market B, but too low in Market A.
- C. an equilibrium in Market A, but too high in Market B.
- D. an equilibrium in both Markets.

126. At the current wage of \$6.00, demand for labor in Market A is

- A. stronger than demand for labor in Market B.
- B. less elastic than demand for labor in Market B.
- C. more elastic than demand for labor in Market B.
- D. less than demand for labor in Market B.

127. At the current wage of \$6.00, worker surplus in Market A is \_\_\_\_ and in Market B is \_\_\_\_.

- A. 36; 36
- B. 9; 18
- C. 18; 18
- D. 18; 36

128. At the current wage of \$6.00, employer surplus in Market A is \_\_\_\_ and in Market B is \_\_\_\_.

- A. 36; 36
- B. 9; 9
- C. 18; 18
- D. 36; 9

129. If the living wage is enacted, there will be \_\_\_\_ fewer hours worked in Market A and \_\_\_\_ fewer hours worked in Market B.

- A.  $\frac{1}{2}$ ; 3
- B.  $\frac{3}{4}$ ; 3
- C. 1; 3
- D.  $\frac{3}{4}$ ;  $\frac{1}{2}$

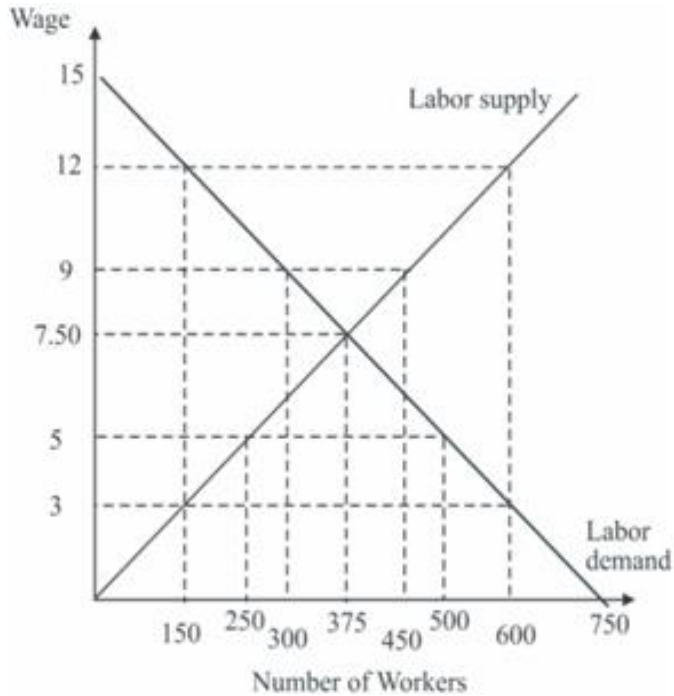
130.If the living wage is enacted, total economic surplus will \_\_\_ in Market A and will\_\_\_ in Market B.

- A. increase; remain the same
- B. remain the same; decrease
- C. increase; increase
- D. decrease; decrease

131.If the living wage is enacted, deadweight loss will be

- A. zero in Market A and positive in Market B.
- B. positive in both markets, but greater in Market A than in Market B.
- C. positive in both markets, but greater in Market B than in Market A.
- D. positive and equal in both markets.

The following graph illustrates a low wage labor market.



132. In an unregulated competitive market, the equilibrium wage rate would be \_\_\_\_\_ and the equilibrium employment level would be \_\_\_\_\_.

- A. \$12.00; 600
- B. \$9.00; 300
- C. \$7.50; 375
- D. \$5.00; 250

133. Suppose a minimum wage of \$12 is imposed in this labor market to improve the wages of low wage workers. This results in

- A. 225 workers losing their jobs.
- B. 375 workers receiving \$12 an hour.
- C. an improvement in the economic status of the original 375 workers.
- D. a new equilibrium at \$12 and 150 workers.

134. Imposition of the \$12/hour minimum wage caused worker surplus to \_\_\_\_ and employer surplus to \_\_\_\_\_.

- A. rise; fall
- B. fall; fall
- C. stay the same; fall
- D. rise; stay the same

135. The imposition of the \$12/hour minimum wage caused the total economic surplus in the labor market to \_\_\_\_ by \_\_\_\_\_.

- A. rise; \$1,012.50
- B. fall; \$1,012.50
- C. rise; \$225.00
- D. fall; \$1,350.00

136. To completely eliminate the concern about public assistance reducing the poor's incentive to work, the government could

- A. provide training assistance rather than cash or in-kind transfers.
- B. give churches and nonprofit organizations the responsibility for administering the programs.
- C. give everyone a fixed cash transfer.
- D. give the assistance as wages in exchange for public sector employment.

137. According to the textbook, the best possible solution to the problem of poverty would seem to be

- A. a combination of a negative income tax and public employment.
- B. maintaining the current system.
- C. a negative income tax with the tax credit equal to the poverty threshold.
- D. complete elimination of all efforts to assist the poor.



# Chapter 12 Testbank Key

1. In competitive labor markets, \_\_\_\_ demand labor and \_\_\_\_ supply labor.

- A. firms; labor unions
- B. labor unions; firms
- C. workers; firms
- D. firms, workers

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #1*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

Badr works for a landscape contractor, generating gross revenues of \$50 per hour. Non-labor variable costs total \$10 per hour. Badr loves to garden, and would be willing to work for \$15 per hour. Assume that the labor market is perfectly competitive.

*Frank - Chapter 12*

2. Badr's reservation price for an hour of work is \_\_\_\_\_ per hour.

- A. \$10
- B. \$15
- C. \$50
- D. \$40

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #2*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

3. For each hour that Badr works, the landscape company's net benefits are
- A. equal to Badr's reservation price.
  - B. \$50 minus Badr's wage.
  - C. \$40 minus Badr's wage.
  - D. zero, because non-labor variable costs and Badr's wage completely consume revenues.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #3*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

4. The difference between the net revenue generated by Badr and Badr's reservation price will eventually
- A. be captured by Badr in the form of rent.
  - B. be captured by Badr's employer in the form of profit.
  - C. cause wages in the landscape market to fall to \$15.
  - D. be split evenly between Badr and the landscape company.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #4*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

5. In a competitive labor market, if a firm pays a worker less than that worker's VMP, then in the long run
- A. the firm will earn positive economic profits.
  - B.** competing firms will be able to hire the worker away, driving wages up to VMP.
  - C. the worker will have no incentive to work hard.
  - D. the supply of workers will fall.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #5*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

6. What is the extra output received from the hiring of an extra worker?
- A. Total product divided by Wage
  - B. Wage times Marginal Product
  - C.** Marginal product
  - D. Average product

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #6*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

7. The value of marginal product
- A. equals marginal product times net price.
  - B. equals total product divided by net price.
  - C. equals marginal product divided by net price.
  - D. equals average product times the wage rate.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #7*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

8. The marginal product of the 14<sup>th</sup> worker is 8 and the firm sells its output for \$4 per unit. If labor is the only variable cost, the value of the 14<sup>th</sup> worker's marginal product is

- A. \$2.
- B. \$4.
- C. \$12.
- D. \$32.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #6*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

The relationship between labor usage and output at the local coffee shop is summarized in the table below. The price of a cup of espresso is \$1.25 and no other inputs are required.

<u>Labor Input</u>	<u>Cups of espresso</u>
0	0
1	25
2	45
3	60
4	70
5	75

9. The marginal product of the fourth worker is \_\_\_\_\_.

- A. 70
- B. 60
- C. 17.5
- D. 10

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #9*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

10. The marginal product of the third worker is \_\_\_\_\_ than the marginal product of the second worker which means \_\_\_\_\_.

- A. greater; diminishing returns are absent
- B. less; diminishing returns are present
- C. neither greater nor less; the third worker will be hired
- D. less; the third worker will never be hired

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #10*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

11. The benefit to the coffee shop of hiring the fifth worker is

- A. 70 cups of espresso.
- B. 75 cups of espresso.
- C. \$93.75.
- D.** \$6.25.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #11*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

12. The value of marginal product for the first worker is \_\_\_\_\_.

- A. 25 cups of espresso
- B.** \$31.25
- C. \$25
- D. \$20

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #12*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

13. The most the coffee shop would pay the third worker is \_\_\_\_\_.

- A. \$75
- B. \$60
- C.** \$18.75
- D. \$15

*AACSB: Analytical Skills*

Samira owns a candy factory and hires workers in a competitive labor market to pack cases of candy. The company's weekly output of cases of candy varies with the number of workers hired, as shown in the table:

Number of workers	Cases/week
0	0
1	160
2	310
3	450
4	580
5	700
6	810

14. The marginal product of the fourth worker is \_\_\_\_\_.

A. 110

**B.** 130

C. 140

D. 145

15. If each case sells for \$5 more than the cost of the materials used in producing it, then the value of marginal product for the 2<sup>nd</sup> worker is \_\_\_\_\_.

A. \$150

B. \$310

C. \$315

D. \$750

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #15*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

16. If each case sells for \$3 more than the cost of the materials used in producing it, then the most Samira would pay the 5<sup>th</sup> worker is \_\_\_\_\_.

A. \$330

B. \$360

C. \$390

D. \$120

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #16*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*



17. If each case sells for \$5 more than the cost of the materials used in producing it and the competitive market wage is \$650/week, how many workers should Samira hire?
- A. 5
  - B. 4**
  - C. 3
  - D. 2

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #17*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

Gino's Pizza shop hires cooks in a competitive market. The raw material required to make each pizza costs \$5. Daily output at Gino's Pizza varies with the number of workers hired, as shown in the table below:

Number of workers	Pizzas/ Day
0	0
1	16
2	36
3	54
4	70
5	84
6	96

*Frank - Chapter 12*

18. The marginal product of the 3<sup>rd</sup> worker is \_\_\_\_\_.
- A. 12
  - B. 14
  - C. 16
  - D. 18**

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #16*

19. If the pizzas sell for \$10/pie, and the competitive market wage is \$80 per day, Gino will hire \_\_\_\_ workers and produce \_\_\_\_ pizzas per day.

A. 5; 84

B. 2; 36

C. 3; 54

D. 4; 70

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #19*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

20. If the pizzas sell for \$8 per pie and the ingredients cost \$5 per pie, what is the value marginal product for the 4<sup>th</sup> worker?

A. \$96

B. \$112

C. \$48

D. \$128

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #20*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

The chart below describes the short run productivity of workers at PaperPushers Inc., an office support firm that has no variable costs other than labor.

Workers	Pages per Hour
1	40
2	75
3	105
4	125
5	140
6	150
7	155

*Frank - Chapter 12*

21. Because productivity at PaperPushers displays \_\_\_\_\_ the firm should \_\_\_\_\_
- A. diminishing marginal productivity; hire as few workers as possible.
  - B. constant marginal productivity; hire as many workers as it can.
  - C. diminishing marginal productivity; hire workers only if VMP is greater than or equal to the product price.
  - D. diminishing marginal productivity; hire workers only if VMP is greater than or equal to the workers' wage.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #21*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

22. If the market price is \$5 per page, the first worker's VMP is \_\_\_\_ and the third worker's VMP is \_\_\_\_.

- A. \$20; \$525
- B. \$200; \$150**
- C. \$200; \$525
- D. \$20; \$15

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #22*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

23. The VMP of the sixth worker is \_\_\_\_\_ than the VMP of the fourth worker because

- A. less; the firm experiences economies of scale.
- B. less; the sixth worker is less skilled than the fourth worker.
- C. less; the firm experiences diminishing returns to inputs.**
- D. more; the workers can specialize and exploit comparative advantages.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #23*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

24. If the workers are producing a product that sells for \$2.00 per page this firm will
- A. hire all seven workers if wages are \$20.
  - B. hire all seven workers if wages are \$10.
  - C. hire all seven workers only if wages are \$5 or less.
  - D. always hire the seventh worker.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #24*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

25. If the price of pages increases, the demand for workers will
- A. remain the same, as the workers are hired in the labor market and the product is sold in the paper processing market.
  - B. increase because the workers will be motivated to produce more.
  - C. increase because the value of what the workers make has increased.
  - D. decrease because at a higher sales price the firm will not have to produce as much output.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #25*

*Learning Objective: 12-01 Understand the relationship between wages and the marginal productivity of workers.*

*Section: The Economic Value of Work*

26. The optimal number of workers for a perfectly competitive firm to hire occurs when
- A. total labor costs equal total revenues.
  - B. diminishing marginal productivity is first experienced.
  - C. the wage rate equals the marginal product of the last worker.
  - D. the wage rate equals the value of marginal product of the last worker.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #26*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

27. In the market for labor, the demand function describes
- A. the number of workers who are willing to work at each wage.
  - B. the output of workers who are paid a given wage.
  - C. the number of workers a firm is willing to hire at each wage.
  - D. the demand for the firm's output.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #27*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

28. The demand function curve for workers
- A. is dependent on the demand for the product that they make.
  - B. is stable as there is no substitute for human labor.
  - C. shifts to the right when the population decreases.
  - D. shifts to the right when technology allows a firm to replace human labor with machines.

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29. Technological advances shift the demand for labor
- A. to the left.
  - B. to the right.
  - C. to the left if technology is a complement of labor, but to the right if it is a substitute.
  - D. to the right if technology is a complement of labor, but to the left if it is a substitute.

30. If demand for the product you make were to suddenly decline you would expect the equilibrium price of the product to fall,
- A. causing an increase in the VMP of each worker.
  - B. causing a decrease in the VMP of each worker.
  - C. but no change in the VMP of each worker because product prices don't affect worker productivity.
  - D. causing the marginal productivity of each worker to fall.

31. A firm is unlikely to hire a worker if

- A. the worker's contribution to the firm's revenue is less than his or her wage.
- B. the worker's contribution to the firm's profit is less than his or her wage.
- C. by hiring that last worker the firm begins to experience diminishing marginal productivity of labor.
- D. the minimum wage set by law is less than the equilibrium wage in the market.

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*Blooms: Understanding*

*Frank - Chapter 12 #31*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

32. Karim works for a perfectly competitive firm where he receives a wage rate of \$15. One can infer that

- A. Karim's marginal product is at least \$15.
- B. the price of the firm's output is at least \$15.
- C. Karim's reservation wage is exactly \$15.
- D. Karim's value of marginal product is at least \$15.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #32*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*



33. The general rule governing the hiring of workers is to

- A. minimize average labor costs.
- B.** equate marginal labor costs to marginal labor benefits.
- C. equate total labor costs to total labor benefits.
- D. maximize marginal product.

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*Blooms: Knowledge*

*Frank - Chapter 12 #33*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

34. In order to maximize profits or minimize losses, a firm facing a perfectly competitive labor market must hire workers until

- A. the extra revenue from the last worker equals the extra profit.
- B.** the extra revenue from the last worker equals the extra cost.
- C. the marginal wage rate equals marginal product.
- D. the marginal product of workers begin to decline.

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*Blooms: Knowledge*

*Frank - Chapter 12 #34*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

35. The value of marginal product for the last worker hired is \$20 and the wage rate is \$25. The firm

- A. should reduce its labor usage.
- B. should increase its labor usage.
- C. should keep the last worker it hired.
- D. is cost minimizing.

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*Blooms: Application*

*Frank - Chapter 12 #35*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

36. The labor market model that predicts an equilibrium wage equal to VMP applies

- A. only to markets for unskilled labor.
- B. only to competitive labor markets.
- C. to all labor markets.
- D. to labor markets that are exempt from minimum wage laws.

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*Blooms: Knowledge*

*Frank - Chapter 12 #36*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

37. If a labor market does not meet the conditions of a perfectly competitive market
- A. wages will be higher than in a competitive labor market.
  - B. the invisible hand will force the labor market to behave as if it were perfectly competitive.
  - C. workers will unionize to force competition.
  - D. wages may be either higher or lower than they would be in a competitive market.

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*Blooms: Understanding*

*Frank - Chapter 12 #37*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

38. In a model of a competitive labor market, the supply curve would shift to the right if
- A. the government relaxed its immigration laws.
  - B. a cultural or social change occurred such that fewer mothers returned to work after their children were born.
  - C. firms replaced human workers with robots.
  - D. firms opened more plants overseas.

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*Blooms: Understanding*

*Frank - Chapter 12 #38*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

39. To derive the labor demand curve for a particular market, one
- A. adds up the value of marginal product curves at all labor usage levels.
  - B. adds up the marginal product curves at the various wage rates.
  - C. adds up the value of marginal product curves at the various wage rates.
  - D. adds up the available workers at the various wage rates.

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*Blooms: Knowledge*

*Frank - Chapter 12 #39*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

40. The value of marginal product curve is downward sloping because
- A. firms must lower price to sell more.
  - B. at lower wages, only less qualified workers are available.
  - C. of the law of diminishing marginal product.
  - D. profits decline as more workers are hired.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #40*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

41. Firms and individuals do not technically buy and sell the labor input; renting is a more accurate description. Therefore,
- A. the supply and demand model does not apply.
  - B.** the basic model of supply and demand can be applied to competitive labor markets.
  - C. equilibrium will never occur.
  - D. firms will always underpay workers.

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*Blooms: Understanding*

*Frank - Chapter 12 #41*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

42. In a competitive labor market, it is observed that the equilibrium wage rate and employment level have both risen. One can infer that
- A. the supply of labor has increased.
  - B. the demand for labor has fallen.
  - C.** the demand for labor has increased.
  - D. the supply of labor has decreased.

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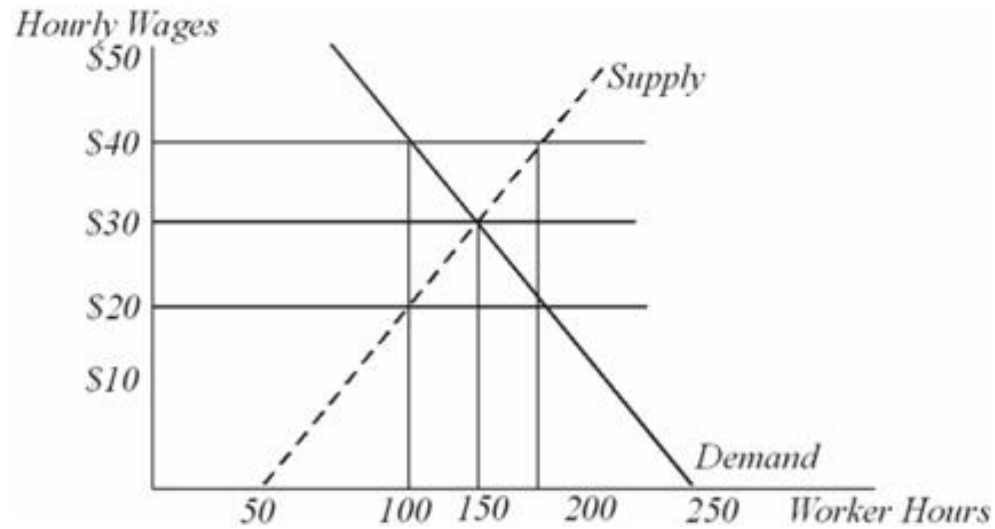
*Blooms: Application*

*Frank - Chapter 12 #42*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

Assume that this graph illustrates a perfectly competitive labor market.



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43. Equilibrium in this labor market is at a wage of \_\_\_\_\_ and employment of approximately \_\_\_\_\_ worker hours.

- A. \$30; 100
- B. \$30; 150**
- C. \$20; 175
- D. \$20; 100

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Blooms: Application

Frank - Chapter 12 #43

Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.

Section: The Equilibrium Wage and Employment Levels

44. According to this graph, \_\_\_\_ worker hours would be performed on a volunteer (unpaid) basis.
- A. 0
  - B. 50**
  - C. 100
  - D. 250

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #44*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

45. Suppose a minimum wage law required the wage to be at least \$20 in this market. If that happened,

- A. there would be an excess supply of worker hours.
- B. there would be excess demand for worker hours.
- C. demand for worker hours would shift to the right.
- D. there would be no change in the hourly wage paid or the number of worker hours hired.**

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*Blooms: Application*

*Frank - Chapter 12 #45*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

46. In this market, at a wage of \$40,
- A. the market would be in equilibrium.
  - B.** there would be more people wanting to work than there would be job openings at firms.
  - C. firms would not be able to find enough workers to satisfy the firms' demand for workers.
  - D. approximately 175 worker hours would be hired.

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*Blooms: Application*

*Frank - Chapter 12 #46*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

47. If the supply of worker hours in this market shifted to the right
- A.** the equilibrium wage would fall and the number of worker hours would increase.
  - B. the equilibrium wage and the number of worker hours would increase.
  - C. the equilibrium wage would stay the same, but the number of worker hours would increase.
  - D. the equilibrium wage would fall and the number of worker hours would decrease.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #47*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

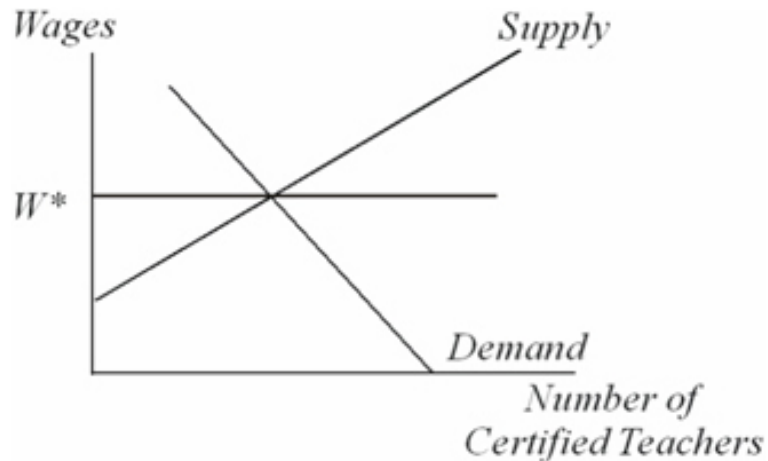
*Section: The Equilibrium Wage and Employment Levels*

48. In a competitive labor market, the equilibrium wage rate is determined by
- A. government regulation.
  - B. employers.
  - C.** the intersection of labor demand and labor supply.
  - D. employees.

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Suppose that this graph describes the current labor market for high school teachers:



49. If wages are currently  $W^*$ ,
- A. there will be a shortage of certified teachers.
  - B. there will be a surplus of certified teachers.
  - C. the market is in equilibrium: neither a shortage nor a surplus exists.
  - D. teachers are underpaid.

50. Suppose supply were to shift to the left. Why might that happen?

- A. Distance learning and computer technology replace human teachers.
- B. Women enter the workforce in greater numbers.
- C. Immigration by families with children increase the need for more teachers.
- D. More attractive employment opportunities become available in health careers.

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*Blooms: Application*

*Frank - Chapter 12 #50*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

51. Given the wage equal to  $W^*$ , immediately following a shift of the supply curve to the left

- A. there will be a shortage of certified teachers.
- B. there will be an excess supply of certified teachers.
- C. the reservation wage of each remaining teacher will fall.
- D. the market will be in equilibrium.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #51*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

52. Suppose the market were to re-equilibrate following a shift of the supply curve to the left. At the new equilibrium, wages would be
- A. higher, and more teachers would be hired.
  - B.** higher, and fewer teachers would be hired.
  - C. the same, but fewer teachers would be hired.
  - D. the same, and more teachers would be hired.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #52*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

53. A reduction in the workers' marginal productivity would result in
- A. an increase in labor supply.
  - B. an increase in equilibrium employment level.
  - C.** a reduction in the equilibrium wage rate.
  - D. a decrease in labor supply.

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*Blooms: Understanding*

*Frank - Chapter 12 #53*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

54. A decrease in demand for a firm's output results in a(n)
- A. increase in labor supply.
  - B. decrease in labor demand.**
  - C. decrease in labor supply.
  - D. increase in labor demand.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #54*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

55. If a perfectly competitive firm finds that the productivity of its workers has increased, then
- A. labor supply increases.
  - B. labor demand decreases.
  - C. the wage rate decreases.
  - D. labor demand increases.**

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #55*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

Lulu Market increased wages for their cashiers from \$7/hr to \$9/hr. Badr, a cashier at Lulu, now works 30hrs/week instead of the 25hrs/week hours Badr used to work before the wage increase. On the other hand Omar, also a cashier at Lulu decreased his work time by 5hrs/week after the wage increase and started to spend more time watching TV.

*Frank - Chapter 12*

56. Badr's behavior can be best explained as the \_\_\_\_\_ of high wage rates.

- A. demand effect
- B. supply effect
- C. income effect
- D. substitution effect

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #56*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

57. Omar's behavior can be best explained as the \_\_\_\_\_ of high wage rates.

- A. demand effect
- B. supply effect
- C. income effect
- D. substitution effect

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #57*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

58. In models of labor supply, the opportunity cost of spending an hour enjoying leisure activities is
- A. the price paid to engage in those activities.
  - B.** the hourly wage that could have been earned during that hour.
  - C. zero.
  - D. one-and-a-half times a person's regular wage.

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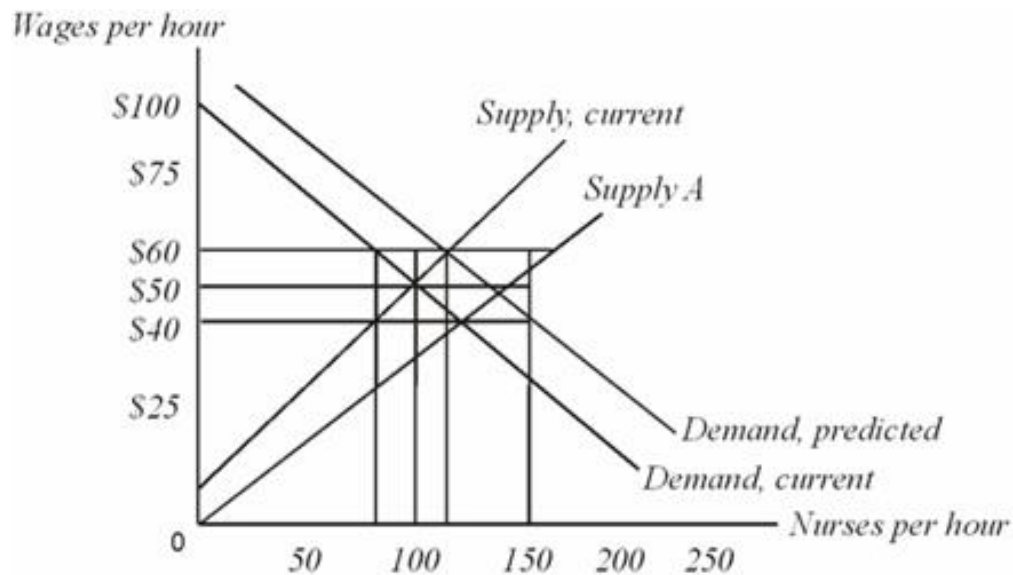
Blooms: Understanding

Frank - Chapter 12 #58

Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.

Section: The Equilibrium Wage and Employment Levels

Suppose that demographers predict that the average age of the population will increase. One result will be an increase in the demand for nurses. Assume that the graph below describes the current nursing labor market in a mid-sized city, and that the market is a competitive one.



Frank - Chapter 12

59. Suppose that several years ago the supply of nurses in this city was as shown as Supply A. What might explain the change from Supply A to Supply, current?
- A. an increase in nurses' wages
  - B. a decrease in nurses' wages
  - C. increased immigration of people trained as nurses in other countries.
  - D.** increased employment opportunities for people who would have once chosen nursing as a career.

*AACSB: Reflective Thinking Skills*

*Blooms: Analysis*

*Frank - Chapter 12 #59*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

60. Suppose that several years ago the supply of nurses in this city was as shown as Supply A. Suppose further that the nursing market had been in equilibrium at that time and that wages did not change when supply changed to Supply, current. (Assume that demand has remained stable at Demand, current.) The result is that nurses earn \_\_\_\_\_ and
- A. \$40; more than 100 nurses work per hour.
  - B.** \$40; there is a nursing shortage.
  - C. \$50; there are many nurses willing to work for \$40 who are unable to find a job.
  - D. \$50; other labor markets adjust to restore equilibrium in all markets.

*AACSB: Reflective Thinking Skills*

*Blooms: Analysis*

*Frank - Chapter 12 #60*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

61. The shift in supply from Supply A to the current Supply means that if demand increases as predicted (to Demand, predicted)

- A. wages will have to rise to \$60 to avoid a nursing shortage.
- B. wages will have to rise to \$50 to avoid a nursing shortage.
- C. a wage of \$40 will be sufficient to achieve equilibrium.
- D. a wage of \$50 will yield an excess supply of nurses.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #61*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

62. Suppose the market started out in equilibrium, with Supply A and the current demand in effect. Relative to that situation, the shift in supply from Supply A to Current Supply together with an increase in demand to Demand, predicted

- A. cancel each other out, so that neither wages nor number of nurses changes.
- B. cause the number of nurses to increase, but the wages will change minimally if at all.
- C. cause wages to increase, but the number of nurses will change minimally if at all.
- D. cause both wages and the number of nurses to increase.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #62*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*



63. In the long run, if the nursing market is perfectly competitive, the demographic shift that increases the demand for nurses is likely to
- A. cause nurses' wages to increase, providing a greater incentive to choose nursing as a career.
  - B. cause the working conditions of nurses to worsen, providing a disincentive to choose nursing as a career.
  - C. cause a persistent shortage of nurses because the market undervalues nurses.
  - D. shift back to the original demand as needs are unmet.

*AACSB: Reflective Thinking Skills*

*Blooms: Analysis*

*Frank - Chapter 12 #63*

*Learning Objective: 12-02 Analyze how wages and employment are determined in competitive labor markets.*

*Section: The Equilibrium Wage and Employment Levels*

64. Taken together, factors like education, training, experience, intelligence, and work habits are known as
- A. statistical discrimination factors.
  - B. human capital.
  - C. productivity factors.
  - D. learned behaviors.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #64*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

65. Individuals have \_\_\_\_ control over the human capital that they bring to the labor market because
- A. no; human capital is innate.
  - B. complete; human capital formation is the result of hard work.
  - C. partial; some human capital is innate and some is the result of hard work.
  - D. no; human capital is largely a matter of luck.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #65*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

66. Which of the following factors is not part of one's stock of human capital?
- A. I.Q.
  - B. Years of education
  - C. The current level of unemployment
  - D. Ability to concentrate

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #66*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

67. Salman and Alia are identical in every way except for one: Alia has an IQ score 10 points higher than Salman. All else equal, human capital theory would predict Alia
- A. and Salman will earn the same.
  - B. will earn exactly 10% more than Salman.
  - C. will earn less than Salman.
  - D. will earn more than Salman.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #67*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

68. When calculating the worthiness of a college education, one must use \_\_\_\_\_ values because the costs and benefits \_\_\_\_\_.
- A. nominal; are estimated
  - B. discounted; accumulate over time
  - C. real; cannot keep pace with inflation
  - D. non-monetary; are largely non-monetary

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #68*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

Amina has an undergraduate degree in economics and has been working as a utility rate analyst at the local electricity utility. If she continues on her present career path, the present value of her lifetime earnings is \$250,000. If she takes two years off and gets an MS degree in economics, the present value of her lifetime earnings is \$275,000. The annual cost of an MS degree in economics is \$15,000 and the interest rate is 8%.

*Frank - Chapter 12*

69. The discounted (present value) cost of Amina's graduate degree in economics is \_\_\_\_\_.
- A. \$30,000
  - B. more than \$30,000
  - C. more than \$15,000 but less than \$30,000
  - D. \$15,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #69*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

70. The discounted (present value) benefit of Amina's benefits to getting a graduate degree is \_\_\_\_\_.
- A. \$275,000
  - B. \$250,000
  - C. \$25,000
  - D. -\$5,000

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #70*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

71. Amina should

- A. get the MS degree because her lifetime earning will increase \$25,000.
- B. get the MS degree because more education is always better than less education.
- C. not get the MS degree because \$30,000 is greater than \$25,000.
- D. not get the MS degree if the present value of cost exceeds the present value of benefit.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #71*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

72. A group of workers who collectively bargain with employers for higher wages and better working conditions is called a

- A. labor monopsony.
- B. labor union.
- C. labor collective.
- D. closed shop.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #72*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

73. A labor union in the labor market is analogous to a(n) \_\_\_\_\_ in the output market.
- A. monopsony
  - B. oligopoly
  - C. cartel
  - D. perfect competitor

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #73*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

74. The reason nonunion firms do not always drive the union firms out of business is
- A. markets are not competitive.
  - B. consumers look for the union label.
  - C. union firms hire more selectively, employing workers with greater human capital.
  - D. union firms cut corners in other areas.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #74*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

75. Which of the following is not a reason why union firms can successfully compete with nonunion firms?

- A. Employee morale may be higher at union firms.
- B. Communication between management and workers is more formal and hence improved at union firms.
- C. Labor turnover is lower at union firms.
- D. Union firms are legally protected from price competition from nonunion firms.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #75*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

76. Which of the following is not true of labor unions?

- A. They seek to increase members' wages.
- B. They seek to increase medical benefits paid to members.
- C. They bargain for safer working conditions.
- D. They encourage management to take steps to maximize profits.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #76*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

77. The union wage premium refers to
- A. the dues one must pay in order to join a union.
  - B. the union wage rate minus union membership dues.
  - C. the deduction for union insurance.
  - D. the amount by which union wages exceed nonunion wages.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #77*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

78. Differences in wage rates associated with differences in working conditions are called
- A. compensating income differentials.
  - B. equalizing wage ratios.
  - C. conditional differentials.
  - D. compensating wage differentials.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #78*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*



79. Primary and secondary school teachers earn less than others with similar educational requirements. Part of the difference is due to
- A. a work schedule that coincides with their children's schedule.
  - B. a lack of union representation.
  - C. discrimination.
  - D. society's devaluing of education.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #79*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

80. Jobs in which there is a higher risk of injury or death will
- A. include better insurance benefits than similar jobs.
  - B. pay less than otherwise similar jobs.
  - C. require regulation by the government.
  - D. pay more than otherwise similar jobs.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #80*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

81. An arbitrary preference by an employer for one group of workers over another is termed
- A. customer discrimination.
  - B. statistical discrimination.
  - C. employer discrimination.**
  - D. employee discrimination.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #81*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

82. Hassan has just been offered a job that pays much more than other jobs requiring the same skills, education, and hours. Hassan can infer that
- A. the job will be more prestigious.
  - B. the job will involve adverse working conditions.**
  - C. the employer is not greedy.
  - D. the job will also offer generous benefits.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #82*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

83. Suppose that welders working on offshore oil rigs earn 25% more than welders working on land based oil rigs. The difference in earnings is best explained by
- A. differences in education.
  - B. discrimination.
  - C. differences in working conditions.
  - D. differences in abilities.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #83*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

84. For a given occupation, jobs with a large social approval factor will pay \_\_\_\_\_ the average salary while jobs with a large social disapproval factor will pay \_\_\_\_\_.
- A. more than; the average
  - B. the same as; less
  - C. less than; more
  - D. more than; less than

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #84*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

Fawzi just graduated from the university and has three job offers: teaching at a prestigious private high school nine months a year with summers off, working forty hours a week at a bank in a small city, and working more than sixty hours a week for a high-powered investment firm.

*Frank - Chapter 12*

85. The annual salary for each of these offers is probably:
- A. lowest for the investment firm job, middling for the bank job, and highest at the high school.
  - B. lowest for the bank job, middling for the investment firm, and highest at the high school.
  - C. lowest at the high school, middling for the investment firm, and highest for the bank job.
  - D. lowest at the high school, middling for the bank job, and highest at the investment firm.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #85*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

86. Suppose all of the jobs paid exactly the same annual salary, and that most people prefer leisure to work, all else equal. If that were the case,
- A. there would be a shortage of high school teachers.
  - B. there would be a surplus of investment advisors.
  - C. there would be a surplus of high school teachers.
  - D. people would naturally sort themselves into the job that best suits their talents.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #86*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

87. Suppose all of the jobs currently offer exactly the same annual salary, and that most people prefer leisure to work, all else equal. In order to attract workers,
- A. the private high school will have to offer a higher salary than the others.
  - B. the bank will have to offer a higher salary than the Investment firm.
  - C. the Investment firm will be able to offer a lower salary than the others.
  - D. the Investment firm will have to offer a higher salary than the others.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #87*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

88. Assume that the average male wage rate is 20% higher than the average female wage rate. One can infer that
- A. this is evidence of discrimination.
  - B. employers undervalue female employees.
  - C. customers overvalue male employees.
  - D. this is evidence of discrimination only if all factors affecting productivity are equal.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #88*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

89. Bassam is getting a divorce. He selects a female lawyer at a large law firm because he believes they are more aggressive in obtaining favorable settlements in divorce cases. Bassam's behavior is an example of \_\_\_\_\_ discrimination.

- A. market
- B. employer
- C. employee
- D. customer

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #89*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

90. Consumer discrimination exists when consumers are willing to pay \_\_\_\_\_ for a good or service produced by the favored group, even though the quality of the good or service is \_\_\_\_\_.

- A. more; better
- B. less; worse
- C. more; worse
- D. more; the same

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #90*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

91. Males major in engineering much more frequently than females. Starting salaries for engineers (male or female) are very high. As a result, the observed wage gap for all college grads is \_\_\_\_\_ than wage gaps in specific majors because of \_\_\_\_\_.

- A. larger; employer discrimination
- B. smaller; academic discrimination
- C. larger; customer discrimination
- D. larger; choices made by male and female students

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #91*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

92. Samia and Samer both work for the same firm on the same career ladder. Each has the same stock of human capital except for one difference: Samia has worked at the firm for 10 continuous years but Samer has had two leaves of absence mixed in with his 10 years of experience with the firm. One would expect

- A. Samia and Samer to earn the same income.
- B. Samer to earn more than Samia.
- C. Samia to earn twice as much as Samer.
- D. Samia to earn more than Samer.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #92*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

93. Suppose males place less importance on the social approval of their job and more on the income they receive. The gender wage gap would therefore be \_\_\_\_\_ than if this difference did not exist because of \_\_\_\_\_.

- A. smaller; compensating wage differentials
- B. larger; choices made by workers
- C. larger; employer discrimination
- D. smaller; the smaller importance assigned to social approval

*AACSB: Reflective Thinking Skills*

*Blooms: Analysis*

*Frank - Chapter 12 #93*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

94. A winner-take-all labor market is one in which

- A. large differences in human capital translate into small differences in wages.
- B. one worker receives all of the available compensation and the rest receive nothing.
- C. small differences in human capital translate into small differences in wages.
- D. small differences in human capital translate into large differences in wages.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #94*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*



95. Suppose that some professional football players earn over \$6 million per year while the average salary is \$1.2 million. The explanation for this rests with
- A. a winner-take-all labor market.
  - B. the best players being nearly six times better than average players.
  - C. undisciplined owners overspending on players' salaries.
  - D. racial discrimination.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #95*

*Learning Objective: 12-03 Analyze how wages and employment are determined in competitive labor markets.*

*Section: Explaining Differences in Earnings*

96. According to Professor Rawls, if income was given to a group of people and those people had no idea of their talents, they would likely prefer an income distribution that rewarded
- A. innovation.
  - B. high I.Q.
  - C. artistic gifts.
  - D. everyone with an equal share of income.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #96*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

97. The reason people in Professor Rawls' thought experiment would choose a uniform distribution of income is
- A. concern for the welfare of their fellows.
  - B.** they fear ending up in a disadvantaged position.
  - C. people are risk seeking.
  - D. it is the easiest distribution to implement.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #97*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

98. The degree of income inequality produced by competitive markets, in Professor Rawls' view, is
- A. minor.
  - B.** greater than the amount people would prefer.
  - C. consistent with the ideal amount.
  - D. acceptable.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #98*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

Malik is offered a job driving the campus shuttle bus from 4 P.M. to 6 P.M. each Monday. His reservation wage for this job is \$7/hour.

*Frank - Chapter 12*

99. If the campus transportation director offers Malik \$50/hour, how much economic surplus will he enjoy as a result of accepting the job?
- A. \$36
  - B. \$43**
  - C. \$50
  - D. \$86

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #99*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

100. Suppose the campus transportation director offers Malik \$50/hour, and Malik doesn't have to share his income with anyone else. Will Malik accept this job?
- A. Yes, accepting the job means a positive surplus for Malik.**
  - B. No, accepting the job means a negative surplus for Malik.
  - C. Yes, although accepting the job means a negative surplus for Malik, still it's better than having no job.
  - D. No, although accepting the job means a positive surplus for Malik, still it's not the best option for him.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #100*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

101. Now suppose the director offers Malik \$50/hour, but also announces that the earnings from the job will be divided equally among Malik and the 99 other students who live in Malik's dorm. How much economic surplus will Malik enjoy now for accepting the job?

- A. \$0.50
- B. \$1.00
- C. -\$6.00
- D. -\$6.50

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #101*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

102. Now suppose the director offers Malik \$50/hour, but also announces that the earnings from the job will be divided equally among Malik and the 99 other students who live in Malik's dorm. Will Malik still accept this job?

- A. Yes, accepting the job means a positive surplus for Malik.
- B. No, accepting the job means a negative surplus for Malik.
- C. Yes, although accepting the job means a negative surplus for Malik, still it's better than having no job.
- D. No, although accepting the job means a positive surplus for Malik, still it's not the best option for him.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #102*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

103. Now suppose the director offers Malik \$50/hour, but also announces that the earnings from the job will be divided equally among Malik and four other students. Will Malik still accept this job?

- A. No, because the other students are free riders.
- B. No, because it is not fair for Malik to do the work and then have to share the wage.
- C. Yes, because \$50 divided by five is greater than Malik's reservation wage.
- D. Yes, because Malik believes in the Rawlsian theory of justice.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #103*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

Ilhame is offered a job answering the phone in the university's economics department during lunchtime, from noon to 1 P.M., Tuesdays and Thursdays. Her reservation wage for this job is \$15/hour.

*Frank - Chapter 12*

104. If the department chair offers Ilhame \$150/week, how much economic surplus will she enjoy each week as a result of accepting the job?

- A. \$15
- B. \$120
- C. \$135
- D. \$150

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #104*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

105. If the department chair offers Ilhame \$150/week, and Ilhame doesn't have to share her income with anyone else. Will Ilhame accept this job?
- A. Not enough information.
  - B. Yes, accepting the job means a positive surplus for Ilhame.
  - C. No, accepting the job means a negative surplus for Ilhame.
  - D. Yes, although accepting the job means a negative surplus for Ilhame, still it's better than having no job.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #105*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

106. Now suppose the department chair announces that the \$150/week earnings from the job will be divided equally among Ilhame and 299 other students in the department. How much economic surplus will Ilhame enjoy each week if she accepts the job?
- A. \$0.50
  - B. -\$14.00
  - C. -\$29.00
  - D. -\$29.50

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #106*

*Learning Objective: 12-04 Discuss recent trends in income inequality and philosophical justifications for income redistribution.*

*Section: Is Income Inequality a Moral Problem?*

107. When the government transfers resources to the poor in the form of a good or service, it is called

- A. a tax credit.
- B. Aid to Families with Dependent Children.
- C. an in-kind transfer.
- D. a regressive tax.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #107*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

108. To say that a given welfare program is means-tested indicates that

- A. in order to qualify, one must have the means.
- B. the size of the payment reflects the mean value of consumption based on family size.
- C. in order to qualify, one must show that one means to find a job.
- D. the more income one earns, the smaller the size of the benefit.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #108*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

109. An in-kind transfer payment to the poor is
- A. made out of kindness.
  - B. a cash payment.
  - C. a benefit in the form of a good or service.
  - D. less costly to provide compared to a cash payment.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #109*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

110. A welfare payment that is reduced when the recipient earns more income is a(n)
- A. fair benefit.
  - B. inducement for the poor to find employment.
  - C. unconditional benefit.
  - D. means-tested benefit.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #110*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

Lamya is a welfare recipient who qualifies for two means-tested cash benefits. If she does not earn any income, she receives \$225 from each benefit. For each dollar she earns (which her employer is required to report to the welfare agency), each benefit is reduced by 75 cents until the benefit equals zero.

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111. In the absence of earnings, Lamyra will receive \_\_\_\_\_ in from each, for a total of \_\_\_\_\_ in benefits.

A. \$225; \$225

B. \$225; \$450

C. \$225; \$400

D. \$200; \$400

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #111*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

112. Suppose Lamyra earns \$10. She will lose \_\_\_\_\_ from each benefit, for a total loss of \_\_\_\_\_.

A. \$.75; \$1.00

B. \$7.50; \$7.50

C. \$7.50; \$15.00

D. \$.75; \$1.50

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #112*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

113. If Lamyia earns \$150 she will receive total benefits in the amount of

- A. \$75.
- B. \$325.
- C. \$225.
- D. 0.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #113*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

114. If Lamyia only values income and not how the income was acquired, then she must earn \_\_\_\_\_ to be as well off as when she earns \_\_\_\_\_ and receives benefits.

- A. \$300; nothing
- B. \$150; \$50
- C. \$450; nothing
- D. \$350; nothing

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #114*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

115. If Lamyra values income and not the source of the income, then if she can only earn \$400 he will choose to
- A. work.
  - B. not work and refuse the benefits.
  - C. not work and accept the benefits.
  - D. work part time.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #115*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

116. When Lamyra's earnings are less than \$300, each extra dollar she earns causes her total income (earnings plus benefits) to
- A. fall by 25 cents.
  - B. rise by 50 cents.
  - C. fall by 50 cents.
  - D. rise by 75 cents.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #116*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

117. Arguments **in favor** of programs that tax income to redistribute wealth include:

- A. these programs provide a financial incentive to work harder.
- B. these programs provide a financial incentive to invest in human capital.
- C. these programs help to reduce poverty.
- D. these programs discourage firms from discriminating in their hiring.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #117*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

118. Arguments **against** programs that tax income to redistribute wealth include:

- A. these programs increase the wealth differences between the rich and poor, increasing crime rates.
- B. these programs penalize people who are productive.
- C. these programs penalize people who are unable to work through no fault of their own.
- D. these programs prevent the economy from reaching equilibrium in the labor market.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #118*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

119. A(n) \_\_\_\_\_ involves giving all citizens a substantial lump sum payment that is reduced at a rate of less than 100% as income is earned.

- A. positive income tax
- B. in-kind transfer
- C. unearned income tax credit
- D. negative income tax

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #119*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

120. The level of income used to define being poor is called the

- A. relative measure of poverty.
- B. absolute measure of poverty.
- C. poverty threshold.
- D. median income threshold.

*AACSB: Analytical Skills*

*Blooms: Knowledge*

*Frank - Chapter 12 #120*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

121. A minimum wage law prohibits employers from paying workers less than a specified hourly wage. If the minimum wage is above the equilibrium wage

- A. there will be excess supply of labor.
- B. there will be excess demand for labor.
- C. it creates a price ceiling.
- D. it is the most efficient way to assist the working poor.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #121*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

122. Imposing a minimum wage in the labor market

- A. makes all workers better off.
- B. lowers labor costs.
- C. increases the size of the total wage bill.
- D. makes some workers worse off.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #122*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

123. Suppose the elasticity of labor demand is less than 1 in absolute value. Imposing a minimum wage in the labor market will
- A. increase the incomes of all current workers.
  - B. result in no unemployment.
  - C. increase the size of the firms' total wage bill.
  - D. make few workers better off.

*AACSB: Reflective Thinking Skills*

*Blooms: Application*

*Frank - Chapter 12 #123*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

124. If the elasticity of demand for labor is greater than one, then imposing a minimum wage will cause
- A. the firms' total wage bill to fall.
  - B. employment to rise.
  - C. the firms' total wage bill to rise.
  - D. no adverse employment effects.

*AACSB: Reflective Thinking Skills*

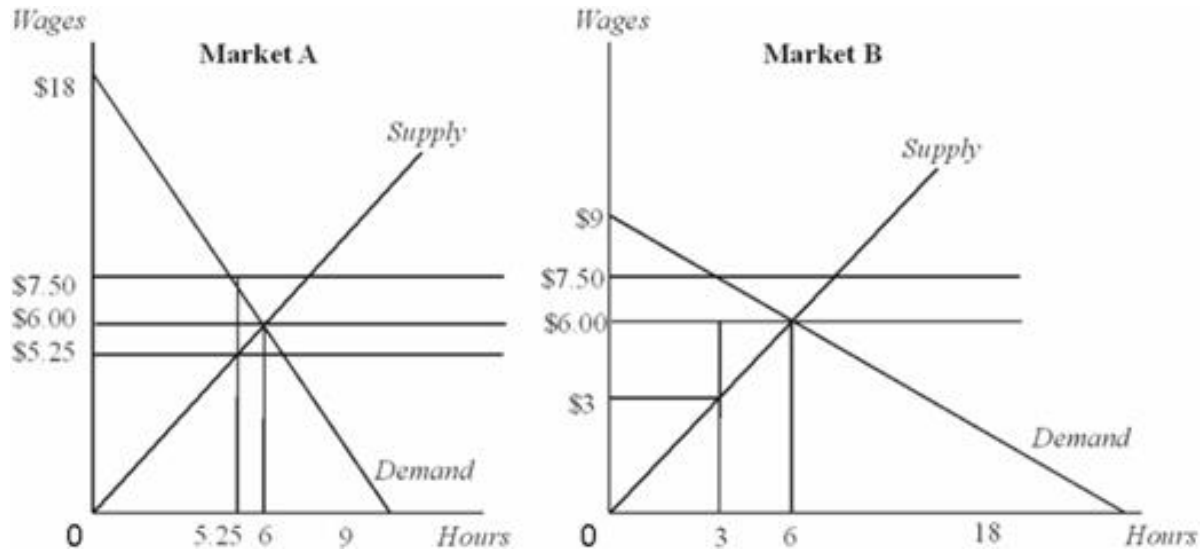
*Blooms: Application*

*Frank - Chapter 12 #124*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

There are two separate labor markets in Toontown, illustrated by the graphs below. Both labor markets currently pay \$6.00 per hour, and both require the same skills and qualifications. The Toontown City Council is considering enacting a \$7.50 living wage ordinance, which would require all Toontown employers to pay wages of at least \$7.50 per hour.



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125. The current wage of \$6.00 is
- A. an equilibrium in Market A, but too low in Market B.
  - B. an equilibrium in Market B, but too low in Market A.
  - C. an equilibrium in Market A, but too high in Market B.
  - D. an equilibrium in both Markets.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 12 #125

Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.

Section: Methods of Income Redistribution



126. At the current wage of \$6.00, demand for labor in Market A is

- A. stronger than demand for labor in Market B.
- B.** less elastic than demand for labor in Market B.
- C. more elastic than demand for labor in Market B.
- D. less than demand for labor in Market B.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #126*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

127. At the current wage of \$6.00, worker surplus in Market A is \_\_\_\_ and in Market B is \_\_\_\_.

- A. 36; 36
- B. 9; 18
- C.** 18; 18
- D. 18; 36

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #127*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

128. At the current wage of \$6.00, employer surplus in Market A is \_\_\_\_ and in Market B is \_\_\_\_.

- A. 36; 36
- B. 9; 9
- C. 18; 18
- D.** 36; 9

*AACSB: Analytical Skills*

129. If the living wage is enacted, there will be \_\_\_ fewer hours worked in Market A and \_\_\_ fewer hours worked in Market B.

A.  $\frac{1}{2}$ ; 3

**B.**  $\frac{3}{4}$ ; 3

C. 1; 3

D.  $\frac{3}{4}$ ;  $\frac{1}{2}$

130. If the living wage is enacted, total economic surplus will \_\_\_ in Market A and will \_\_\_ in Market B.

A. increase; remain the same

B. remain the same; decrease

C. increase; increase

**D.** decrease; decrease

131. If the living wage is enacted, deadweight loss will be

- A. zero in Market A and positive in Market B.
- B. positive in both markets, but greater in Market A than in Market B.
- C. positive in both markets, but greater in Market B than in Market A.**
- D. positive and equal in both markets.

*AACSB: Analytical Skills*

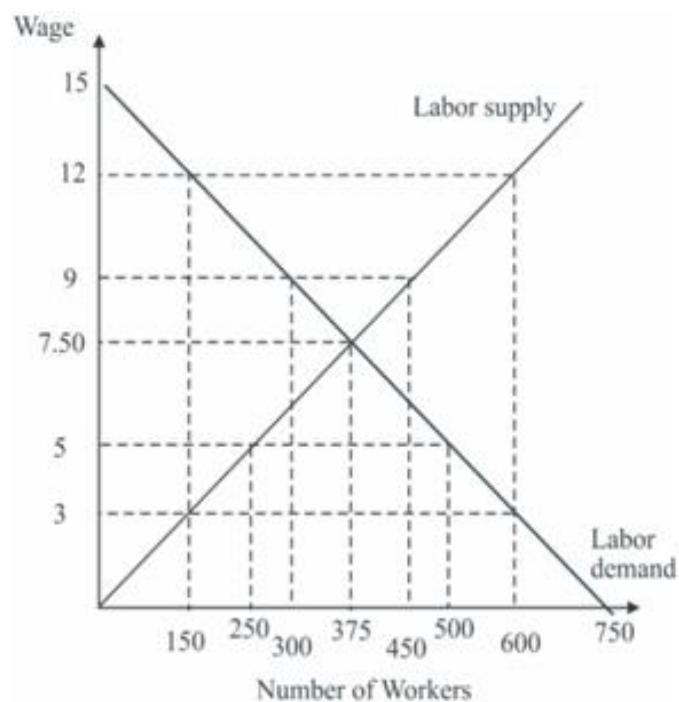
*Blooms: Application*

*Frank - Chapter 12 #131*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

The following graph illustrates a low wage labor market.



*Frank - Chapter 12*

132. In an unregulated competitive market, the equilibrium wage rate would be \_\_\_\_\_ and the equilibrium employment level would be \_\_\_\_\_.

A. \$12.00; 600

B. \$9.00; 300

C. \$7.50; 375

D. \$5.00; 250

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #132*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

133. Suppose a minimum wage of \$12 is imposed in this labor market to improve the wages of low wage workers. This results in

A. 225 workers losing their jobs.

B. 375 workers receiving \$12 an hour.

C. an improvement in the economic status of the original 375 workers.

D. a new equilibrium at \$12 and 150 workers.

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #133*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

134. Imposition of the \$12/hour minimum wage caused worker surplus to \_\_\_\_ and employer surplus to \_\_\_\_\_.

- A. rise; fall
- B. fall; fall
- C. stay the same; fall
- D. rise; stay the same

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #134*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

135. The imposition of the \$12/hour minimum wage caused the total economic surplus in the labor market to \_\_\_\_ by \_\_\_\_\_.

- A. rise; \$1,012.50
- B. fall; \$1,012.50
- C. rise; \$225.00
- D. fall; \$1,350.00

*AACSB: Analytical Skills*

*Blooms: Application*

*Frank - Chapter 12 #135*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

136. To completely eliminate the concern about public assistance reducing the poor's incentive to work, the government could
- A. provide training assistance rather than cash or in-kind transfers.
  - B. give churches and nonprofit organization the responsibility for administering the programs.
  - C. give everyone a fixed cash transfer.
  - D. give the assistance as wages in exchange for public sector employment.

*AACSB: Reflective Thinking Skills*

*Blooms: Analysis*

*Frank - Chapter 12 #136*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

137. According to the textbook, the best possible solution to the problem of poverty would seem to be
- A. a combination of a negative income tax and public employment.
  - B. maintaining the current system.
  - C. a negative income tax with the tax credit equal to the poverty threshold.
  - D. complete elimination of all efforts to assist the poor.

*AACSB: Analytical Skills*

*Blooms: Understanding*

*Frank - Chapter 12 #137*

*Learning Objective: 12-05 Describe and analyze some of the methods used to reduce poverty.*

*Section: Methods of Income Redistribution*

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