

Labor Economics, 8e (Borjas)

Chapter 1 Introduction to Labor Economics

1) Which is not a decision made by potential workers in the United States?

- A) deciding whether or not to participate in the labor force
- B) determining how to divide one's time between work and leisure
- C) choosing how much to produce to maximize firm profit
- D) choosing how much education to receive
- E) deciding which occupation to pursue

Answer: C

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

Bloom's: Remember

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2) Which of the following is not a leading actor in labor markets?

- A) consumers
- B) firms
- C) workers
- D) government
- E) unions

Answer: A

Difficulty: 1 Easy

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3) The labor demand curve shows how many workers the firm is willing to hire

- A) at any particular time.
- B) at a particular amount of labor supplied.
- C) at any given wage.
- D) into high-skill jobs.
- E) when demand for the firm's output is low.

Answer: C

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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- 4) An outward shift in the labor demand curve implies that
- A) employers are now looking to hire more workers at any given wage.
 - B) employers are now looking to hire fewer workers if the wage decreases.
 - C) employers are now looking to hire fewer workers regardless of the wage.
 - D) demand for the firm's output likely fell.
 - E) a greater number of workers are now more willing to work at any given wage.

Answer: A

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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- 5) The labor supply curve shows how many workers are willing to work
- A) in a particular industry.
 - B) at any given time.
 - C) at the minimum wage.
 - D) at any given wage.
 - E) in order to maximize the firm's profit.

Answer: D

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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- 6) An upward-sloping labor supply curve implies that
- A) a firm can always hire more workers, even without increasing the wage.
 - B) more workers are willing work when wages are low.
 - C) more workers are willing to work as the market wage increases.
 - D) the labor supply is fixed.
 - E) there is a continuously increasing demand for labor.

Answer: C

Difficulty: 1 Easy

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- 7) Labor economics concerns
- A) how labor markets work.
 - B) the study of education decisions.
 - C) the study of how households decide where to live.
 - D) the study of income inequality.
 - E) All of these are labor economics concerns.

Answer: E

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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- 8) A firm's labor demand curve is typically
- A) a vertical line.
 - B) a horizontal line.
 - C) upward sloping.
 - D) downward sloping.
 - E) associated with a slope equal in absolute value to the slope of the labor supply curve.

Answer: D

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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- 9) The typical labor supply curve
- A) is u-shaped.
 - B) equals the marginal product of labor.
 - C) slopes up.
 - D) slopes down.
 - E) depends on the size of the firm.

Answer: C

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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10) Which of the following affects the wage a firm is willing to pay its workers?

- A) the productivity of workers
- B) consumer demand for the goods and/or services that the firm creates
- C) the amount of fringe benefits the firm is required by law to pay
- D) the level of payroll taxes the firm must pay
- E) All of the above affect the wage a firm is willing to pay its workers.

Answer: E

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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11) Which of the following affects a person's decision to work?

- A) the price of consumption goods relative to the wage
- B) the person's income from nonlabor sources
- C) how much the person enjoys working
- D) the amount of fringe benefits offered to the person
- E) All of the above affect a person's decision to work.

Answer: E

Difficulty: 1 Easy

Topic: The Actors in the Labor Market

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12) Labor market equilibrium is best characterized by

- A) a wage at which all people have a job.
- B) a wage at which all workers are above the poverty level.
- C) a wage at which the number of people willing to work equals the number of workers firms are willing to hire.
- D) a minimum wage at which everyone is willing to work.
- E) all workers receiving their ideal wage.

Answer: C

Difficulty: 2 Medium

Topic: The Actors in the Labor Market

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13) Labor economists sometimes refer to labor demand as "derived" demand. In this context, where does "derived" come from?

- A) the firm's production function
- B) the union's willingness to accept a lower wage
- C) consumer demand for the firm's product
- D) the firm's profit
- E) the degree of competition in the firm's industry

Answer: C

Difficulty: 2 Medium

Topic: The Actors in the Labor Market

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14) The government is a player in the U.S. labor market in part because the government

- A) determines who is allowed to attend college.
- B) assigns potential workers to particular industries.
- C) sets workplace safety rules and regulations.
- D) suggests a minimum wage for firms to pay.
- E) funds employer-based health insurance benefits.

Answer: C

Difficulty: 2 Medium

Topic: The Actors in the Labor Market

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15) A firm's demand for labor is derived in part from

- A) worker preferences for jobs.
- B) consumer demand for the firm's product.
- C) the level of monthly union dues.
- D) the firm's sunk costs.
- E) the value of the firm's stock price.

Answer: B

Difficulty: 2 Medium

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16) The market for economists in Greenland has recently experienced an increase in the number of economists employed and an increase in the wage paid to economists. What could have generated such a change?

- A) The demand for economists recently increased while the supply of economists remained unchanged.
- B) The demand for economists recently decreased while the supply of economists remained unchanged.
- C) The demand for economists remained unchanged while the supply of economists increased.
- D) The demand for economists remained unchanged while the supply of economists decreased.
- E) The demand for economists recently decreased while the supply of economists recently increased.

Answer: A

Difficulty: 3 Hard

Topic: The Actors in the Labor Market

Bloom's: Apply

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17) Suppose labor supply can be described as $E_S = 0.1w - 1000$ where w is yearly salary. How many workers are willing to work when the yearly salary is \$20,000?

- A) 100
- B) 200
- C) 500
- D) 1000
- E) 2000

Answer: D

Difficulty: 3 Hard

Topic: The Actors in the Labor Market

Bloom's: Apply

AACSB: Knowledge Application

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18) Suppose labor supply can be described as $E_S = 0.1w - 1000$ where w is yearly salary. What yearly salary must be paid to encourage 6000 workers to accept jobs?

- A) \$30,000
- B) \$40,000
- C) \$50,000
- D) \$60,000
- E) \$70,000

Answer: E

Difficulty: 3 Hard

Topic: The Actors in the Labor Market

Bloom's: Apply

AACSB: Knowledge Application

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19) Suppose labor demand can be described as $E_D = 120,000 - 1.5w$ where w is yearly salary. How many more workers are demanded at a going wage of \$60,000?

- A) 20,000
- B) 30,000
- C) 40,000
- D) 50,000
- E) 60,000

Answer: B

Difficulty: 3 Hard

Topic: The Actors in the Labor Market

Bloom's: Apply

AACSB: Knowledge Application

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- 20) What is likely to happen to the demand for firemen as building codes change to require firewalls and sprinklers to be included in all new construction?
- A) The demand for firemen will fall as the demand for fire protection services falls.
 - B) The demand for firemen will increase as the supply of firemen falls when old buildings are replaced with newer buildings.
 - C) The demand for firemen will remain unchanged as firemen do not build new construction.
 - D) The demand for firemen will increase as long as wages paid to workers on new construction projects exceed the minimum wage.
 - E) The demand for firemen will remain unchanged as long as the property tax-base increases when the new construction projects are completed.

Answer: A

Difficulty: 3 Hard

Topic: The Actors in the Labor Market

Bloom's: Apply

AACSB: Knowledge Application

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- 21) What is likely to happen to the supply of firemen as building codes change to require firewalls and sprinklers to be included in all new construction?
- A) The supply of firemen will fall because there will be fewer fires.
 - B) The supply of firemen will increase because there will be fewer fires.
 - C) The supply of firemen will remain unchanged because the supply curve relates the number of fire fighters to the wage, not to the number of fires.
 - D) The supply of firemen will increase as long as wages paid to workers on new construction projects is also increasing.
 - E) The supply of firemen will decrease as long as the property tax-base increases when the new construction projects are completed.

Answer: C

Difficulty: 3 Hard

Topic: The Actors in the Labor Market

Bloom's: Apply

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- 22) What is likely to happen to the labor market equilibrium for firemen as building codes change to require firewalls and sprinklers to be included in all new construction?
- A) The number of firemen employed will increase while firemen wages will decrease.
 - B) The number of firemen employed will decrease while firemen wages will decrease.
 - C) The number of firemen employed will increase while firemen wages will increase.
 - D) The number of firemen employed will decrease while firemen wages will increase.
 - E) The number of firemen employed will remain the same while firemen wages will increase.

Answer: B

Difficulty: 3 Hard

Topic: The Actors in the Labor Market

Bloom's: Apply

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- 23) When forming theories, economists must be careful to
- A) include all known facts and details.
 - B) omit crucial factors.
 - C) mirror the real world as realistically but as simply as possible.
 - D) consider historical behavior and policies.
 - E) limit the analysis to two variables.

Answer: C

Difficulty: 1 Easy

Topic: Why Do We Need a Theory?

Bloom's: Remember

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- 24) What type of questions can be answered with economic tools without interjecting any value judgment as to whether the particular outcome is desirable or harmful?
- A) normative questions
 - B) positive questions
 - C) labor questions
 - D) econometric questions
 - E) public policy questions

Answer: B

Difficulty: 1 Easy

Topic: Why Do We Need a Theory?

Bloom's: Remember

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25) What type of questions cannot be answered with theory or facts alone?

- A) normative questions
- B) positive questions
- C) factual questions
- D) empirical questions
- E) econometric questions

Answer: A

Difficulty: 1 Easy

Topic: Why Do We Need a Theory?

Bloom's: Remember

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26) Which of the following is a positive rather than a normative question?

- A) What effect does increasing welfare assistance by 20% have on female labor supply?
- B) Should the United States allow unlimited immigration?
- C) Should the "Highly Qualified Teacher" provision of No Child Left Behind be eliminated?
- D) Should there be a minimum wage?
- E) Should trade unions be allowed to lobby Congress?

Answer: A

Difficulty: 1 Easy

Topic: Why Do We Need a Theory?

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27) Which of the following is a normative rather than a positive statement?

- A) The minimum wage is \$7.25 per hour.
- B) Public education should be funded primarily at the state level.
- C) The federal debt exceeds \$8 trillion.
- D) At its peak, unemployment exceeded 10% during the 2007–08 recession.
- E) The average real wage of high-school dropouts has fallen by 10% since 1970.

Answer: B

Difficulty: 1 Easy

Topic: Why Do We Need a Theory?

Bloom's: Remember

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- 28) Any economic model should be judged primarily on
- A) how realistic its assumptions are.
 - B) how accurately its predictions match observed behavior.
 - C) how easy the model is to use.
 - D) how many aspects of real-world behavior and choices are incorporated in the model.
 - E) how original the model is compared to other models.

Answer: B

Difficulty: 1 Easy

Topic: Why Do We Need a Theory?

Bloom's: Remember

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- 29) In an econometric model, the dependent variable is
- A) the behavior one is trying to explain.
 - B) unchanging across subsamples.
 - C) always the wage.
 - D) also known as the residual.
 - E) unrelated to the independent variables.

Answer: A

Difficulty: 1 Easy

Topic: Appendix: An Introduction to Regression Analysis

Bloom's: Remember

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- 30) When plotting log wages (y-axis) against years of schooling (x-axis), the slope of the regression line indicates
- A) the average wage.
 - B) the average logged wage.
 - C) the average years of schooling.
 - D) the economic return to each additional year of schooling measured in dollars.
 - E) the economic return to each additional year of schooling measured in percentage terms.

Answer: E

Difficulty: 2 Medium

Topic: Appendix: An Introduction to Regression Analysis

Bloom's: Understand

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