Chapter 01

Introduction to Labor Economics

Multiple Choice Questions

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.

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

A. Consumers
B. Firms
C. Workers
D. Government
E. Unions

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.

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 more workers if the wage increases.
C. employers are now looking to hire fewer workers regardless of the wage.
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A. in a particular industry.
B. at any given time.
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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 to work when wages are low.
C. more workers are willing to work as the market wage increases.
D. labor supplied is fixed.
E. there is a continuously increasing demand for labor.

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.

8. A firm's labor demand curve is typically

A. a vertical line.
B. a horizontal line.
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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.

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.
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D. The amount of fringe benefits offered to the person.
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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.

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.

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

A. determines who can go to college.
B. assigns potential workers to particular industries.
C. sets workplace worker safety regulations.
D. suggests a minimum wage for firms to pay.
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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.

16. The market for economists in Greenland has recently experienced an increase in the number of economists employed and an increase in the wage of economists. What could explain 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.

17. Suppose labor supply can be described as $E_S = 0.1w - 1{,}000$ 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. 1,000
E. 2,000

18. Suppose labor supply can be described as $E_S = 0.1w - 1{,}000$ where w is yearly salary. What yearly salary must be paid to encourage 6,000 workers to accept jobs?

A. $30,000
B. $40,000
C. $50,000
D. $60,000
E. $70,000

19. 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 don't 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 decrease as long as the property tax-base increases when the new construction projects are completed.

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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

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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.

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.

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.

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.

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

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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 U.S. 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?

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

A. The (nominal) 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 recession.
E. The average wage of high-school dropouts has fallen by 20% since 1970.

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.

29. In an econometric model, the dependent variable is

A. the behavior one is trying to explain.
B. unchanging across sub-samples.
C. always the wage.
D. also known as the residual.
E. unrelated to the independent variables.

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.

Chapter 01 Introduction to Labor Economics Answer Key

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AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: The Actors in the Labor Market

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