Chapter 01

Introduction to Labor Economics

**Multiple Choice Questions**

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| 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. | |

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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 | |

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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. | |

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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 more workers if the wage increases. |  |  |  | | --- | --- | | 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. | |

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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. | |

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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. | |

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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. | |

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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. | |

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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. | |

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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. | |

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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 non-labor 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. | |

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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. | |

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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. | |

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| 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. |  |  |  | | --- | --- | | E. | funds employer-based health insurance benefits. | |

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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. | |

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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 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. | |

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| 17. | Suppose labor supply can be described as *E*S = 0.1*w* - 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 | |

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| 18. | Suppose labor supply can be described as *E*S = 0.1*w* - 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 | |

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| 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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| 20. | Suppose labor demand can be described as *E*D = 120,000 − 1.5*w*, 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 | |

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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. | |

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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. | |

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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. | |

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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. | |

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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. | |

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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? | |

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| 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. | |

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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. | |

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| 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. | |

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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. | |

Chapter 01 Introduction to Labor Economics Answer Key

**Multiple Choice Questions**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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. | |

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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 | |

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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. | |

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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 more workers if the wage increases. |  |  |  | | --- | --- | | 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. | |

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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. | |

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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. | |

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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. | |

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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. | |

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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. | |

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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. | |

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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 non-labor 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. | |

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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. | |

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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. | |

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| 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. |  |  |  | | --- | --- | | E. | funds employer-based health insurance benefits. | |

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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. | |

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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 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. | |

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| 17. | Suppose labor supply can be described as *E*S = 0.1*w* - 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 | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 03 Hard Topic: The Actors in the Labor Market* |

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| 18. | Suppose labor supply can be described as *E*S = 0.1*w* - 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 | |

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| 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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| 20. | Suppose labor demand can be described as *E*D = 120,000 − 1.5*w*, 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 | |

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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. | |

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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. | |

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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. | |

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| *AACSB: Reflective Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 01 Easy Topic: Why Do We Need a Theory?* |

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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. | |

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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. | |

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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? | |

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| 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. | |

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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. | |

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| 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. | |

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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. | |

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