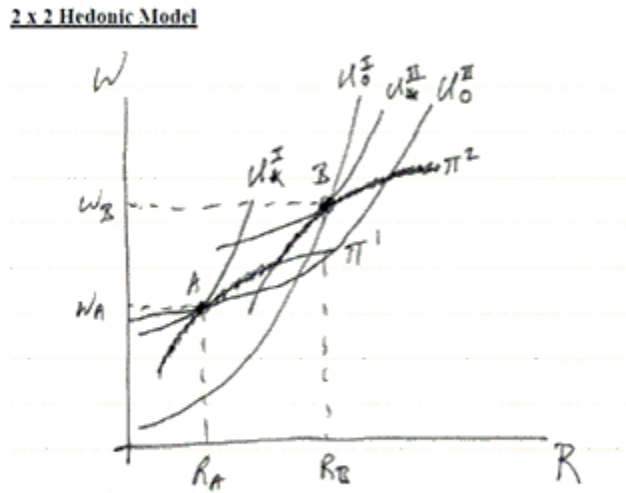
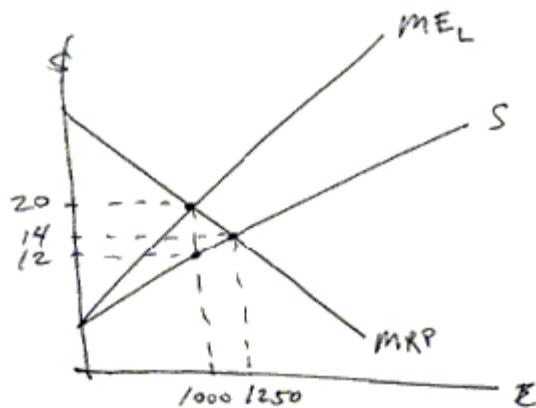


- 1) Consider the 2 x 2 Hedonic Model in the graph below, where W is the wage rate and R is a workplace disamenity (such as risk of injury on the job). This model predicts that the labor market



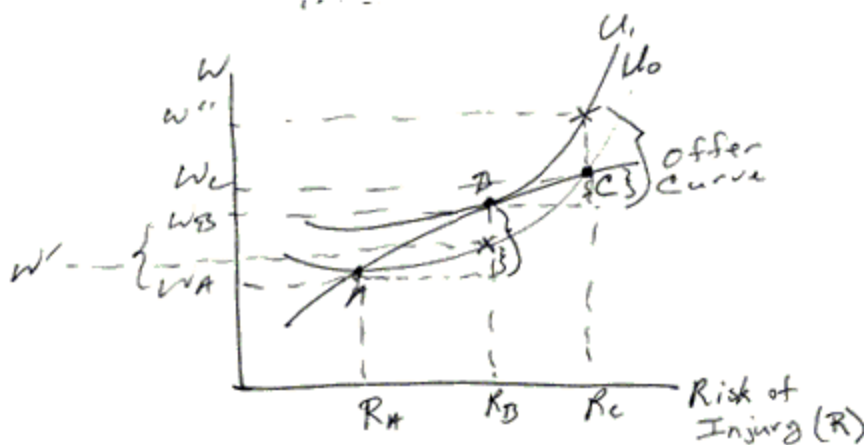
- A) sorts workers to firms according to worker preferences regarding the disamenity.
 B) will experience market failure when compensating wage differentials exist.
 C) will not allow a compensating differential to be paid for a workplace disamenity in the long run.
 D) randomly sorts workers to jobs.
- 2) A monopsony's marginal worker has a marginal revenue product of \$12 an hour and a wage of \$8. A minimum wage of \$10 will have which of these effects?
 A) decrease the marginal expense of a worker
 B) increase the marginal revenue product of the marginal worker
 C) decrease the amount of output the firm produces
 D) increase the firm's average profit per worker
- 3) A monopsony is currently employing 10 workers. To hire an 11th worker, the firm must raise its daily pay by \$5 and pay the 11th worker \$100. What is the marginal expense of employing the 11th worker?
 A) \$150
 B) \$100
 C) \$5
 D) \$105

- 4) A major implication of the *hedonic theory of wages* is that the labor market
- A) differentiates firms according to their underlying hedonics.
 - B) sorts workers to firms that pay higher wages for pleasant working conditions.
 - C) pays a compensating wage differential for undesirable working conditions.
 - D) pays less when undesirable working conditions are present.
- 5) A steeply sloped isoprofit curve, with wages on the vertical axis and risk of injury on the horizontal axis, indicates that
- A) it would be very expensive to increase safety in the workplace.
 - B) injury levels can be reduced easily and inexpensively.
 - C) the firm can pay only small compensating wage differentials.
 - D) the industry is very competitive.
- 6) Along an isoprofit curve,
- A) the firm's safety costs are constant.
 - B) the difference between total costs and total revenues is constant.
 - C) the firm's level of wages is constant.
 - D) the firm's level of safety is constant.
- 7) Consider the monopsonistic labor market shown in the diagram below. What is the maximum wage that a labor union could negotiate without loss of employment?



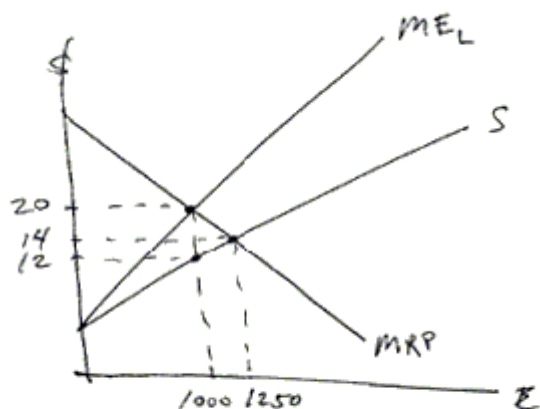
- A) \$20.
- B) \$12.
- C) less than \$12.
- D) \$14.

- 8) When a worker's indifference curves are drawn for wage rates versus injury risk,
- the indifference curves slope upwards because a higher wage is required to accept a higher risk of injury.
 - utility increases as a worker moves to the right along an indifference curve.
 - the indifference curves slope downwards because a higher wage is required to accept a higher risk of injury.
 - utility decreases as a worker moves to the right along an indifference curve.
- 9) Sheldon is indifferent between a combination of 2% risk of injury and a wage rate of \$15 per hour and a combination of 3% risk of injury and a wage rate of \$18 per hour. Shelby is indifferent between a combination of 2% risk of injury and a wage rate of \$16 per hour and a combination of 3% risk of injury and a wage rate of \$18 per hour. Who has a stronger aversion toward risk of injury?
- Sheldon and Shelby exhibit the same aversion to risk.
 - Shelby is more averse to risk than Sheldon.
 - It is impossible to say who is more averse to risk based on the information that is given.
 - Sheldon is more averse to risk than Shelby.
- 10) The worker shown in the graph below is considering three job choices--A, B, and C--with differing wage and risk of injury combinations along the offer curve. Identify the CORRECT statement.



- The worker will choose job C because it pays the most.
- The worker will choose job B because the compensating wage differential paid by the labor market is greater than the extra pay necessary to maintain utility level U_0 at risk level R_B .
- The worker will choose job A because it is the safest choice.
- The worker is indifferent between jobs A, B, and C because all of those choices are on the offer curve.

- 11) Consider the monopsony diagram below. If the monopsony MRP curve is replaced by a competitive market labor demand curve and competitive conditions apply, then the wage that will prevail is



- A) \$20.
 B) \$14.
 C) \$12.
 D) must be less than \$12.
- 12) On a graph of wage rates versus risk of injury, indifference curves are convex because
- A) at higher levels of risk, a worker requires progressively larger increments to pay to compensate for a given increment to risk of injury.
 B) utility is constant on indifference curves.
 C) risk of injury decreases workers' utility.
 D) each additional dollar of pay increases utility more than the previous dollar.
- 13) If a firm reduces the risk of injury in its workplace, then
- A) the firm will see a decrease in total costs.
 B) the firm will likely pay lower wages to make up for the cost of increased safety.
 C) the firm will be able to pay higher wages.
 D) the firm will be able to increase profits.
- 14) If a minimum wage is imposed above the wage determined in a monopsonistic labor market, then
- A) employment decreases but there is very little new unemployment.
 B) there is no change in employment but unemployment increases because the higher wage pulls new job seekers into the labor market.
 C) employment decreases and unemployment increases.
 D) employment increases.

- 15) With wages on the vertical axis and risk of injury on the horizontal axis, firm A's isoprofit curves are flatter than those of firm B. Therefore,
- A) firm B will be willing to pay a larger compensating differential for risk of injury than firm A.
 - B) risk of injury is more costly to reduce in firm A than in firm B.
 - C) both firms will pay the same compensating differential, but firm B will have higher profits than firm A.
 - D) firm A will be willing to pay a larger compensating differential than firm B.

Answer Key

Testname: QUIZ6_V1

- 1) A
- 2) A
- 3) A
- 4) C
- 5) A
- 6) B
- 7) A
- 8) A
- 9) D
- 10) B
- 11) B
- 12) A
- 13) B
- 14) D
- 15) A