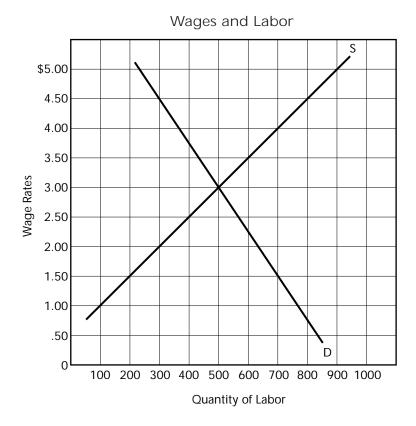
ACTIVITY 55

How Wages Are Determined in Competitive Labor Markets



Use the graph *Wages and Labor*, which shows the supply and demand curves for a perfectly competitive labor market, to answer the questions that follow.

- 1. What are two factors that affect the demand for labor?
- 2. How does marginal revenue product affect the demand for labor?
- 3. Why is the demand curve for labor downsloping?
- 4. What determines the supply of labor?

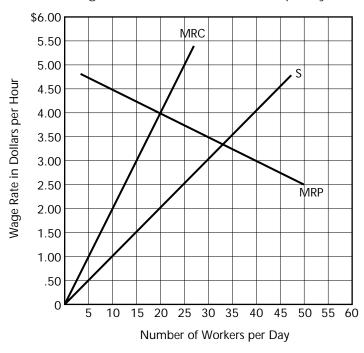
ACTIVITY 55 continued

5.	Why is the supply curve for labor upsloping?
6.	What is the equilibrium wage in this labor market?
7.	How many workers will be hired in this labor market?
8.	If a minimum wage law raises the minimum wage to \$4.50 an hour, what will be the quantity of labor supplied?
9.	At a minimum wage of \$4.50 an hour, what will be the quantity of labor demanded?
10.	How many workers would be laid off or would lose their jobs because of this minimum wage?
11.	How many workers entered the labor force seeking a job because of this minimum wage?
12.	If the demand for labor were more inelastic, would more or fewer workers lose their jobs because of this minimum wage?
13.	Would skilled or unskilled workers be more likely to lose their jobs because of a minimum wage law?
14.	Who benefits from the minimum wage?
15.	Who is hurt by the minimum wage?
16.	Do you favor a higher minimum wage? Why or why not?

ACTIVITY 56

How Wages Are Determined in Monopsonistic Labor Markets

Wages and Workers in a Monopsony



Use the graph *Wages and Workers in a Monopsony*, which represents a monopsonist selling its product in a competitive product market, to answer the following questions. Fill in the answers or cross out the incorrect words in parentheses.

- 1. What is another name for the marginal revenue product (MRP) curve?
- 2. Why is the MRP curve downsloping?

3. Why is the supply curve for labor of the monopsonist upsloping?

ACTIVITY 56 continued

4.	Why is the marginal resource cost (MRC) for a monopsonist greater than the supply curve of a monopsonist?
5.	If this firm were in a competitive labor market: a. What would be the equilibrium wage?
	b. What would be the number of workers employed?
6.	Given the monopsonistic conditions of the <i>Wages and Workers in a Monopsony</i> graph, what are the wage and number of workers employed? a. Wage b. Number of workers employed
7.	Compared to a firm operating in a competitive labor market, a market controlled by a monopsonist will pay a (higher/lower) wage rate and hire (more/fewer) workers.
8.	Suppose the government passes a law mandating a minimum wage of \$3 an hour. As a result, this monopsonist will (increase/decrease) its employment to workers per day at a wage of per hour.
9.	Would a minimum wage law increase or decrease employment in a monopsonistic labor market? Why?
10.	Do you think labor markets are closer to monopsony or perfect competition? Support your answer.