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I. Multiple Choice

1. The demand for labor is considered a **derived demand** because:
 - A. Workers determine market wages
 - B. It depends on demand for the goods labor helps produce
 - C. Labor is always scarce
 - D. The government sets labor demand
2. Marginal Revenue Product (MRP) measures:
 - A. The extra cost from hiring an additional worker
 - B. The total revenue from all workers
 - C. The additional revenue generated by one more worker
 - D. The total cost of hiring all workers
3. In a perfectly competitive labor market, a profit-maximizing firm hires labor until:
 - A. $MRP = Wage$ (MRC)
 - B. $MRP > Wage$
 - C. $Wage = Total\ Revenue$
 - D. $Wage > MRC$
4. If the price of the product a worker helps produce increases, the demand for labor will:
 - A. Increase
 - B. Decrease
 - C. Stay constant
 - D. Become perfectly elastic
5. Which of the following would **increase** labor supply?
 - A. A decline in population
 - B. Higher job training costs
 - C. Increased immigration
 - D. Fewer firms hiring
6. In a monopsony labor market, the employer:
 - A. Is a wage taker
 - B. Pays workers equal to their MRP
 - C. Sets wages below competitive levels
 - D. Has no effect on employment
7. Compared to a competitive labor market, a monopsony will hire:
 - A. More workers at a higher wage
 - B. Fewer workers at a lower wage

- C. More workers at the same wage
 - D. Fewer workers at a higher wage
8. Capital is demanded by firms because it:
- A. Generates utility
 - B. Increases worker leisure
 - C. Increases production and revenue
 - D. Is always free to acquire
9. The supply of land is considered:
- A. Perfectly elastic
 - B. Perfectly inelastic
 - C. Unit elastic
 - D. Horizontally sloped
10. Economic rent represents:
- A. Payment needed to keep land in its current use
 - B. Extra payment above what is needed to keep land in use
 - C. The cost of using machines
 - D. Minimum wage for workers
11. Income inequality is commonly measured using:
- A. Total payroll taxes
 - B. Marginal productivity
 - C. The Lorenz curve and Gini coefficient
 - D. Wage floors
12. A firm should invest in capital until:
- A. $MRP < \text{interest rate}$
 - B. $MRP = \text{interest rate}$
 - C. $MRP = \text{wage rate}$
 - D. Total profit is maximized
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II. True / False

1. The demand for labor depends on the productivity of workers.
2. MRP always increases when more workers are hired.
3. Firms will hire workers as long as $MRP \geq MRC$.

4. A monopsony hires more workers than a competitive labor market.
 5. The supply of land is fixed and does not respond to price changes.
 6. Capital investment increases when interest rates rise.
 7. Wage differences can arise due to human capital differences.
 8. Economic rent is earned because land supply is inelastic.
 9. Income is always distributed equally in free markets.
 10. A minimum wage can increase employment under monopsony conditions.
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III. Fill in the Blanks

1. The demand for labor is _____ demand.
 2. Firms hire workers until _____ = _____.
 3. MRP is calculated by multiplying marginal product by the _____ of output.
 4. The additional cost of hiring one more worker is called _____.
 5. A labor market with a single employer is known as a _____.
 6. In a monopsony, wages are _____ than in a competitive market.
 7. The price of capital in the market is represented by the _____ rate.
 8. The supply of _____ is perfectly inelastic.
 9. The Lorenz curve is used to measure income _____.
 10. Extra payment for land above what is needed to keep it in use is called _____.
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IV. Matching

Match each concept with the correct description.

Concept	Description
A. Derived Demand	1. One employer in labor market
B. MRP	2. Extra revenue from hiring one more unit of labor
C. MRC	3. Inelastic resource due to fixed supply
D. Monopsony	4. Additional cost from hiring one more worker
E. Capital	5. Demand depends on final product demand
F. Land	6. Tool, machinery, or equipment used for production
G. Economic Rent	7. Payment above what is required to keep resource in use

V. Short Answer

1. Why is the demand for labor considered *derived*?
 2. Explain the hiring rule used by profit-maximizing firms.
 3. Describe how wages are determined in a perfectly competitive labor market.
 4. Explain how monopsony power impacts wages and employment.
 5. Why does land earn economic rent instead of normal profit?
 6. How can education and training influence income distribution?
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VI. Calculations

1. A worker has a marginal product of **6 units**, and each unit sells for **\$8**.
 - Calculate the worker's **MRP**.
2. A firm pays a wage of **\$30**. The next worker hired adds **\$25** of MRP.
 - Should the firm hire them? Explain using a rule.
3. A machine generates an MRP of **\$500** per year, and the annual interest rate is **4%**.
 - Should the firm invest if the machine costs **\$10,000**? Show reasoning.

4. A monopsony faces the following labor supply schedule:

Workers	Wage
1	\$10
2	\$11
3	\$12

- What is the MRC of hiring the **third** worker?
 - Explain why $MRC > Wage$.
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VII. Graphing Practice

1. Draw a **competitive vs monopsony** labor market graph.
 - Label: MRP, Supply of Labor, MRC, Competitive Wage/Quantity, Monopsony Wage/Quantity.
2. Draw a **Lorenz curve** and indicate how the **Gini coefficient** is measured.
3. Draw a **capital demand curve** and show the movement if productivity increases.