

23. Marginal revenue product is:
- the total revenue produced by variable inputs.
  - the change in total revenue from selling an additional unit of output.
  - the change in total product that results when an additional unit of a variable input is added to the production process.
  - the change in total revenue that results from the sale of output when an additional unit of a variable input is used.
24. The marginal revenue product of labor determines how many:
- workers will be hired.
  - dollars of profit will be earned.
  - firms will operate in the market.
  - units of output will be sold at various prices.

Answer questions 25 and 26 on the basis of the following table.

Units of Labor	Total Product
1	400
2	900
3	1,200
4	1,500

25. What is the marginal product of the third worker?
- 200 units.
  - 300 units.
  - 500 units.
  - 1,200 units.
26. What is the marginal revenue product of the third worker if the firm can sell whatever it produces at \$5.00 each?
- \$300.
  - \$1,200.
  - \$1,500.
  - \$6,000.

Answer questions 27 and 28 on the basis of the following information.

Two workers produce 100 units of output that sell for \$4.00 each. Three workers produce 150 units of output that sell for \$3.20 each.

27. The marginal product of the third workers is:
- 50 units.
  - 100 units.
  - 150 units.
  - 250 units.
28. The marginal revenue product of the third worker is:
- \$0.80.
  - \$40.00.
  - \$80.00.
  - \$480.00.

## LABOR MARKETS

1. In a market system, wages are determined:
  - a. by government wage guidelines.
  - b. by the interaction of buyers and sellers of labor.
  - c. solely by the price at which a firm is willing to acquire labor.
  - d. solely by the price at which an individual is willing to sell their labor.
2. Wages are determined by the interaction of supply and demand in:
  - a. input markets.
  - b. output markets.
  - c. the business sector.
  - d. the household sector.

Answer questions 3 through 5 on the basis of the following table.

Wage	Labor Supply	Labor Demand
\$20	600	200
16	500	300
12	400	400
8	300	500

3. What will be the equilibrium wage in this labor market?
  - a. \$8.
  - b. \$12.
  - c. \$16.
  - d. \$20.
4. What is the situation in this labor market at a wage of \$16 per hour?
  - a. The market is in equilibrium.
  - b. There is a surplus of 200 workers.
  - c. There is a surplus of 400 workers.
  - d. There is a shortage of 200 workers.
5. What would we expect to occur in this competitive labor market if the wage were \$8 per hour?
  - a. Wages and employment would increase.
  - b. Wages and employment would decrease.
  - c. Wages would increase and employment would decrease.
  - d. Wages would decrease and employment would increase.
6. In a competitive market for labor, the market demand curve for labor:
  - a. and the market supply curve of labor are both downward sloping.
  - b. is downward sloping, and the market supply curve of labor is upward sloping.
  - c. and the market supply curve of labor are both horizontal at the going market price.
  - d. is horizontal at the going market price, and the market supply curve of labor is upward sloping.
7. A derived demand for factors of production means:
  - a. households derive income from factors of production they sell to businesses.
  - b. the value of a product is determined by the value of the factors of production used.
  - c. factors of production derive their value from government policies imposed on businesses.
  - d. the demand for factors of production depends on the demand for the product the factors produce.

15. The value of labor is determined by the:
- Law of Diminishing Returns and the Law of Supply.
  - Law of Diminishing Returns and the Law of Demand.
  - Law of Diminishing Marginal Utility and the Law of Supply.
  - Law of Diminishing Marginal Utility and the Law of Demand.
16. The Law of Diminishing Returns states:
- there is a direct relationship between price and quantity supplied.
  - there is an inverse relationship between price and quantity demanded.
  - as additional units of a good are consumed, beyond some point each additional unit will add less satisfaction.
  - as additional units of a variable factor are added to a fixed factor, beyond some point each additional unit of the variable factor will add less to output than did the previous unit.
17. Marginal product is:
- total product divided by total variable inputs.
  - the total output produced by all the variable inputs.
  - the change in total product that results when an additional unit of a variable input is used.
  - the change in total revenue when an additional unit of a variable input is added to the production process.
18. As more labor is hired by a firm over the short run, the marginal product of each additional unit of labor will eventually decrease because of:
- diseconomies of scale.
  - the Law of Diminishing Returns.
  - the decrease in the dollar value of labor's productivity since less is produced.
  - none of the above.
19. Marginal product is the change in:
- total revenue when one more unit of output is produced.
  - total output when one more unit of a variable resource is utilized.
  - total revenue when one more unit of a variable resource is utilized.
  - the total amount of a variable resource employed when one more unit of the resource is utilized.
20. As more workers are hired by a firm and diminishing returns set in:
- the total cost of labor falls.
  - the total product of labor falls.
  - total revenue for the firm falls.
  - the value of labor's productivity falls.
21. As more workers are hired by a firm and diminishing returns set in, the dollar value of each additional worker's productivity:
- increases.
  - decreases.
  - remains unchanged.
  - decreases initially and then increases.
22. In markets other than those that are purely competitive, the value of additional production by labor:
- cannot be determined.
  - increases since more of the product can be sold at a lower price.
  - is unaffected by any change in the price at which the product is sold.
  - falls because of the decline in price necessary to sell the additional product.

8. The demand for labor is called a derived demand because it depends on the:
- price of labor.
  - income of the purchaser.
  - prices of inputs used with labor.
  - demand for the good or service the labor produces.
9. Since the demand for a factor of production depends on the demand for the good or service the factor produces, the demand for the factor is said to be a:
- derived demand.
  - secondary demand.
  - dependent demand.
  - productivity demand.
10. The wage rate that an individual firm is willing to pay for a unit of labor is based on:
- the cost of competing products.
  - the wage rates paid in other industries.
  - the dollar value of the labor's productivity to the firm.
  - the income earned by the top management of the firm.
11. An individual firm's demand curve for labor is:
- horizontal because there is no relationship between wage rates and the number of workers hired.
  - horizontal because firms can hire as many or as few workers as they wish at the going wage rate.
  - downward sloping because of the decreasing value of labor productivity as more workers are hired.
  - upward sloping because of the need to raise prices in order to pay the wages of additional workers that are hired.
12. The value of labor falls as additional units of labor are hired because of:
- declining profits and increasing costs.
  - decreasing marginal productivity and increasing costs.
  - declining profits and the need to lower product price to sell additional units.
  - decreasing marginal productivity and, in most cases, the need to lower product price to sell additional units.
13. The declining value of labor productivity as more workers are hired is caused by:
- decreasing marginal productivity as more workers are hired.
  - the need by most firms to lower product price in order to increase the quantity of goods and services demanded.
  - both of the above.
  - none of the above.
14. The labor demand curve for an individual firm is:
- upward sloping because businesses are willing to pay higher wages to hire more workers.
  - downward sloping because the value of labor's productivity falls as more workers are hired.
  - perfectly horizontal because labor's productivity does not change as more workers are hired.
  - downward sloping because workers will supply more hours of labor at lower wage rates than at higher wage rates.