

Chapter 2 review questions.

In addition to the multiple choice problems listed below, complete the following from chapter 2: Review questions 1-3, 5--6, 8-9. Problems 1-2.

Multiple Choice problems for chapter 2.

TABLE 2-1

Population: 260 million
Employed: 130 million
Unemployed: 10 million
Retired: 35 million
Under Age 16: 60 million

1. Given the data in Table 2-1, the labor force participation rate is
A) 54%.
B) 65%.
C) 70%.
D) 80%.

2. Given the data in Table 2-1, the unemployment rate is
A) 3.8%.
B) 5.0%.
C) 7.1%.
D) 7.8%.

TABLE 2-2: Workers in the Widget Industry

Year	Earnings	CPI
1966	\$8,000	60
1976	\$15,000	100
1986	\$22,500	178
1996	\$30,000	205

3 According to Table 2-2, real earnings in the Widget Industry in 1986 were
A) \$22,500.
B) \$12,640.
C) \$11,538.
D) \$15,730.

- 4 According to Table 2-2, in which year were the real earnings of workers in the Widget Industry highest?
A) 1966
B) 1976
C) 1986
D) 1996
- 5 A worker's income is equal to his
A) earnings.
B) wage rate multiplied by hours worked.
C) wages plus benefits.
D) earnings plus employee benefits plus unearned income.
- 6 When wages increase, the substitution effect implies that employment will _____ and the scale effect implies that employment will _____.
A) increase; increase
B) increase; decrease
C) decrease; increase
D) decrease; decrease
- 7 When the price of capital increases, the quantity of _____ demanded will _____, but the effect on _____ is ambiguous.
A) labor, increase, capital
B) labor, decrease, capital
C) capital, increase, labor
D) capital, decrease, labor
- 8 When the price of labor falls, the quantity of _____ demanded will _____, but the effect on _____ is ambiguous.
A) labor, increase, capital
B) labor, decrease, capital
C) capital, increase, labor
D) capital, decrease, labor
9. If the price of a product decreases due to a decrease in demand, then
A) the firm moves to the left along the labor demand curve.
B) the firm moves to the right along the labor demand curve.
C) the labor demand curve shifts to the left.
D) the labor demand curve shifts to the right.

10. Because workers have varying preferences about the type of work they like to do,

- A) the market demand curve for chefs is downward sloping.
- B) the market supply curve for chefs is upward sloping.
- C) the firm supply curve for chefs is vertical.
- D) the firm supply curve for chefs is horizontal.

11. Because workers choose between various employers offering the same type of job based primarily on wages,

- A) the market demand curve for chefs is downward sloping.
- B) the market supply curve for chefs is upward sloping.
- C) the firm supply curve for chefs is vertical.
- D) the firm supply curve for chefs is horizontal.

12. If a single small firm's demand for secretaries increases, then

- A) its wage rate will increase and its employment level will remain the same.
- B) its wage rate will increase and its employment level will increase.
- C) its wage rate will remain the same and its employment level will increase.
- D) both its wage rate and its employment level will remain the same.

13. If more people enter the labor market for architects, then

- A) both the wage rate and the employment level will increase.
- B) both the wage rate and the employment level will decrease.
- C) the wage rate will increase and the employment level will decrease.
- D) the wage rate will decrease and the employment level will increase.

14. If the price of capital increases in an industry and the scale effect dominates,

- A) wages and employment levels will both increase.
- B) wages and employment levels will both decrease.
- C) wages will increase and employment levels will decrease.
- D) wages will decrease and employment levels will increase.

15. Workers in an industry are probably underpaid if

- A) employers have difficulty hiring and retaining qualified workers.
- B) the workers cannot afford to quit their jobs.
- C) the workers could receive a higher salary in another occupation.
- D) firms in the industry are making a positive profit.

16. Economic rent is

- A) the value of a worker's labor services.
- B) a worker's wage rate.
- C) the income a worker receives from his or her labor.
- D) the amount by which a worker's wage exceeds his or her reservation wage.

