Answers to End-of-Chapter Review Questions

1. The four main contributors to variations in labor productivity are the skills of the worker, the efficiency with which workers apply their skills, the level of effort with which workers work, and the quantity and the characteristics of the resources available to each worker.

2. The four major alternatives for an individual to using time for market labor are household production, education, self-employment, and leisure.

3. Two major benefits to an individual of supplying market labor are wages or salaries and intrinsic benefits affecting the quality of their lives.

4. A “backwards-bending” labor supply curve for individuals can arise because at low wages the substitution effect may dominate (higher wages makes working for pay more attractive than other activities), while at higher wages the income effect (higher wages makes people want to “spend” on leisure) may be more important.

5. Market labor supply curves are thought of as upwards sloping because workers already in the market may want to work more and new workers will be attracted to the market as wages rise.

6. The conditions that would make a market labor supply curve relatively wage-elastic include elastic supply curves for individual workers or if the skills required are common so that a rise in the wage can easily draw more workers into the particular market.

7. Changes that might cause a market labor supply curve to shift include population changes, changes in norms or technology, and changes in related labor markets.

8. Market labor demand curves are thought of as downwards sloping because high wages create an incentive for employers to economize on the use of labor, by cutting back on productive activities or substituting other inputs, while when wages are low employers may tend to increase production and/or substitute cheap labor for other inputs.

9. Conditions that would make a market labor demand curve relatively wage-elastic include the availability of good substitutes and when the wage bill is a large proportion of total production costs.

10. See, for example, Figure 13.3.

11. Jobs with high human capital requirements tend to pay more than jobs requiring fewer skills because of the relative scarcity of workers with the high human capital required for certain jobs.
12. Some workers have market power because they have special talents or skills that are in fixed supply. Workers can also have market power by representation through unions. An employer can have market power by being the only potential employer in a region or industry (monopsony).

13. Five job characteristics that people may care about other than wages are working conditions, nonwage benefits, opportunities for advancement, social contribution, and job security.

14. Monitoring can lead to good information about employee productivity by determining whether the quantity and quality of work accomplished meets standards set by the employer.

15. Four approaches employers might use to try to motivate their workers are paying efficiency wages, increasing employee morale, maintaining wage contours, and paying by seniority.

16. Biased attitudes among coworkers and customers can make the elimination of labor market discrimination difficult because firms could lose customers or employee morale could suffer if an employer acts in a nondiscriminatory manner that is not accepted by the customers or coworkers.

17. In 2000, the median wage of black male workers was about 77% of the wage of white male counterparts, while the median wage of black female workers was about 87% of that of white female workers. The median wage for women of all races was about 73% of that of men. These gaps can be partially explained through differences in human capital, worker experience, and occupational segregation, but these factors do not account for all of the differential; the remainder appears to be the result of discrimination.

18. The “budget line” in the traditional model of labor supply represents the number of hours an individual has available to “spend” on activities that yield utility either directly or through generating consumption goods.

19. In the traditional model of labor demand, the profit-maximizing labor market decision rule for the firm is to set the marginal revenue product of labor equal to the marginal factor cost of labor. This makes sense because a firm should hire labor until the marginal benefits equal the marginal cost.