

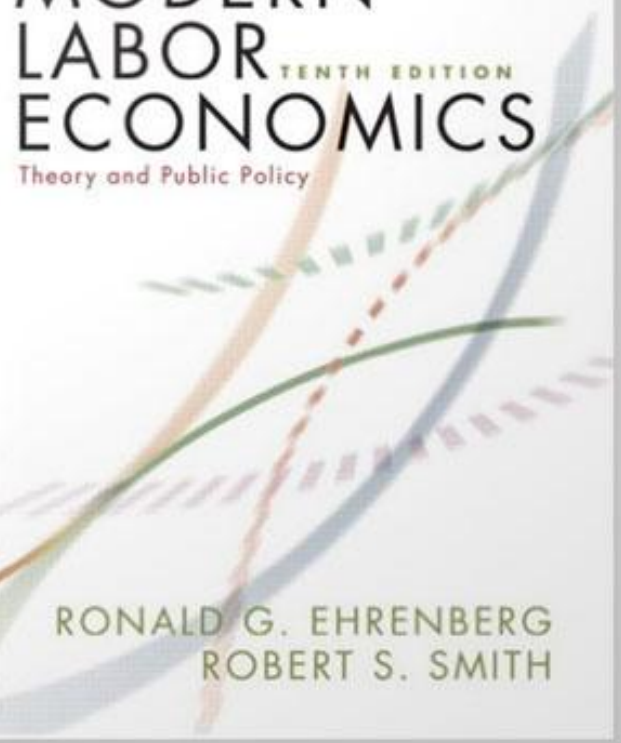
**TEST BANK**



MODERN  
LABOR TENTH EDITION  
ECONOMICS

*Theory and Public Policy*

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**Modern Labor Economics, 10e (Ehrenberg/Smith)**  
**Chapter 2 Overview of the Labor Market**

- 1) The labor market does *NOT*
- A) allocate workers to jobs.
  - B) coordinate employment decisions.
  - C) respond to price signals.
  - D) ensure that all workers are hired.

Answer: D

Question Status: Previous Edition

- 2) Jobs in the "secondary" labor market typically
- A) are held by younger workers.
  - B) are low-wage or unstable jobs.
  - C) are the second job of workers who hold two jobs.
  - D) employ members of households containing two or more workers.

Answer: B

Question Status: Previous Edition

- 3) The labor force is made up of
- A) all members of society.
  - B) all members of society who are at least 16 years of age.
  - C) all members of society who are at least 16 years old and are either employed or unemployed.
  - D) employed workers, unemployed workers, and retired workers.

Answer: C

Question Status: Previous Edition

**Table 2.1**

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

- 4) Given the data in Table 2.1, the labor force participation rate is
- A) 54%.
  - B) 65%.
  - C) 70%.
  - D) 80%.

Answer: C

Question Status: Previous Edition

5) Given the data in Table 2.1, the unemployment rate is

- A) 3.8%.
- B) 5.0%.
- C) 7.1%.
- D) 7.8%.

Answer: C

Question Status: Previous Edition

6) During the twentieth century, the unemployment rate in the United States

- A) has remained roughly constant.
- B) has consistently been higher than in other industrialized countries.
- C) has generally decreased.
- D) has become more stable.

Answer: D

Question Status: Previous Edition

**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

7) 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.

Answer: B

Question Status: Previous Edition

8) 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

Answer: B

Question Status: Previous Edition

9) During the twentieth century, employment in the \_\_\_\_\_ sector experienced the largest absolute growth, while employment in the \_\_\_\_\_ sector had the greatest relative gain, quadrupling its percentage of all employment between 1900-1997.

- A) agriculture; government services
- B) goods production; nongovernment services
- C) nongovernment services; government services
- D) government services; nongovernment services

Answer: C

Question Status: Previous Edition

- 10) Average real hourly compensation of workers in the United States
- A) has doubled since 1975.
  - B) can be shown to have either risen or fallen since 1987, depending on what adjustments are made to offset the fact that the CPI overstates inflation.
  - C) has risen at the same rate as average real hourly wages have during the last sixty years.
  - D) has remained relatively constant throughout the twentieth century.

Answer: B

Question Status: Previous Edition

- 11) 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.

Answer: D

Question Status: Previous Edition

- 12) 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

Answer: D

Question Status: Previous Edition

- 13) 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

Answer: D

Question Status: Previous Edition

- 14) 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

Answer: A

Question Status: Previous Edition

- 15) 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.

Answer: C

Question Status: Previous Edition

- 16) Long-term unemployment rates are higher in most Western European countries than in the United States because
- A) unemployment rates are calculated differently in Western Europe.
  - B) nonmarket forces keep wages in Western Europe above the equilibrium level.
  - C) technological change has accelerated more quickly in Western Europe.
  - D) most Western European governments hire workers to perform jobs that are not in demand.

Answer: B

Question Status: Previous Edition

- 17) If the salaries of accountants increase and other conditions remain the same, then
- A) a firm will move to the left along its labor demand curve for accountants.
  - B) a firm will move to the right along its labor demand curve for accountants.
  - C) the labor demand curve for accountants will shift to the left.
  - D) the labor demand curve for accountants will shift to the right.

Answer: A

Question Status: Previous Edition

- 18) 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.

Answer: B

Question Status: Previous Edition

- 19) 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.

Answer: D

Question Status: Previous Edition

- 20) 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.

Answer: C

Question Status: Previous Edition

- 21) 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.

Answer: D

Question Status: Previous Edition

- 22) If a union negotiates an industry-wide agreement to set wages above the equilibrium level,
- A) the industry's demand curve for labor will shift inward.
  - B) there will be a surplus of labor in the industry.
  - C) there will be a shortage of labor in the industry.
  - D) there will be neither a shortage nor a surplus of labor in the industry.

Answer: B

Question Status: Previous Edition

- 23) 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.

Answer: B

Question Status: Previous Edition

- 24) 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.

Answer: A

Question Status: Previous Edition

- 25) 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.

Answer: D

Question Status: Previous Edition

- 26) Which of these persons is officially classified as being "not in the labor force"?
- A) Alex who was fired from his job two months ago and has yet to look for another job.
  - B) Bob who would start looking for work if he thought he could get a good job.
  - C) Cole who has never worked but just starting looking for work two weeks ago.
  - D) Durk who is working at a low wage job that does not challenge him.

Answer: B

Question Status: Previous Edition

- 27) Which area pays the highest real wage?
- A) Nominal Wage \$15; Consumer Price Index for Area \$50
  - B) Nominal Wage \$20; Consumer Price Index for Area \$100
  - C) Nominal Wage \$25; Consumer Price Index for Area \$150
  - D) Nominal Wage \$50; Consumer Price Index for Area \$200

Answer: A

Question Status: Previous Edition

- 28) Which of the following events will cause the labor demand curve to shift up and to the right?
- A) a lower wage
  - B) an increase in product demand
  - C) an increase in the supply of labor
  - D) all of the above shift the labor demand curve up

Answer: B

Question Status: Previous Edition

- 29) Which of the following occurs if a firm pays workers more than the market wage?
- A) Its application rate will be higher than usual.
  - B) Its quit rate will be lower than usual.
  - C) It will have a surplus of labor.
  - D) All of above occur.

Answer: D

Question Status: Previous Edition

- 30) "Police persons are finding more lucrative and diverse alternative careers in the private sector" If this statement is true, then the supply curve of labor to policing will likely shift \_\_\_\_\_ and become \_\_\_\_\_ steep. Select the best pair of answers.

- A) up; more
- B) up; less
- C) down; more
- D) down; less

Answer: A

Question Status: Previous Edition

- 31) If every worker wants ten dollars more per hour to work, then wages will:

- A) go up by \$10
- B) go up by more than \$10
- C) go up by less than \$10
- D) go down as employment falls

Answer: C

Question Status: New

- 32) Which of the following events will cause a surplus of workers?

- A) A wage above the market-clearing wage
- B) An increase in the supply of workers
- C) A decrease in the demand for workers
- D) More workers wanting to work at higher wages

Answer: A

Question Status: New

- 33) It has been said that CEOs (Chief Executive Officers who are in charge of their firms) are overpaid. Which of the following would be evidence (if true) that they are, in fact, overpaid?

- A) CEOs make many times what their workers make
- B) Firms find that they can find equally qualified persons for a lower salary
- C) CEOs salaries have has increased very rapidly
- D) When CEOs leave their jobs to take new jobs, their new jobs pays more

Answer: B

Question Status: New

34) It has been said that teaching assistants to professors are underpaid. Which of the following would be evidence (if true) that they are underpaid?

- A) There is a surplus of teaching assistants.
- B) Teaching assistants are paid far less than professors, even though they are doing similar work.
- C) Teaching assistants are made to work more than other workers in their job.
- D) Professors have a hard time finding qualified teaching assistants.

Answer: D

Question Status: New

35) If unions raise wages above their market clearing level, then

- A) more workers will be able to get better jobs, increasing employment.
- B) there will be a shortage of workers.
- C) persistently high rates of unemployment will result.
- D) this will be Pareto efficient.

Answer: C

Question Status: New