

# Chapter 18

## *The Markets for the Factors of Production*

### Test A

1. Factors of production are best defined as the
  - a. wages paid to the workforce.
  - b. goods and services sold in the market.
  - c. output produced from raw materials.
  - d. inputs used to produce goods and services.

ANSWER: d. inputs used to produce goods and services.  
TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2. Since a firm's demand for a factor of production comes from its decision to supply a good in the market, we refer to this type of demand as
  - a. supplied demand.
  - b. derived demand.
  - c. secondary demand.
  - d. differentiated demand.

ANSWER: b. derived demand.  
TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3. Most of the total income earned in the U.S. economy is ultimately paid to households in the form of
  - a. rent.
  - b. wages.
  - c. interest.
  - d. profit.

ANSWER: b. wages.  
TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4. The production function describes the relationship between
  - a. inputs and cost.
  - b. outputs and profit.
  - c. inputs and outputs.
  - d. inputs and revenue.

ANSWER: c. inputs and outputs.  
TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5. The marginal product of labor is defined as the increase in
  - a. revenue per additional unit of input.
  - b. output per additional unit of input.
  - c. revenue per additional unit of output.
  - d. output per additional unit of revenue.

ANSWER: b. output per additional unit of input.  
TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6. If hiring more workers causes each additional worker to contribute less to the total output,
  - a. diminishing profitability is present.
  - b. increasing marginal product is present.
  - c. diminishing marginal product is present.
  - d. diminishing marginal cost is present.

ANSWER: c. diminishing marginal product is present.  
TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

7. The value of the marginal product of labor is equal to the change in
- marginal cost with the addition of the last worker.
  - total cost with the addition of the last worker.
  - total profit with the addition of the last worker.
  - total revenue with the addition of the last worker.

ANSWER: d. total revenue with the addition of the last worker.

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

8. A competitive, profit-maximizing firm hires workers until
- the value of the marginal product equals the wage.
  - unemployment rates are zero.
  - marginal product equals zero.
  - marginal revenue equals zero.

ANSWER: a. the value of the marginal product equals the wage.

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

9. A worker's contribution to a firm's revenue is measured directly by the worker's
- contribution to output.
  - value of marginal product.
  - marginal product minus his/her wage.
  - marginal product multiplied by his/her wage.

ANSWER: b. value of marginal product.

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

10. A profit-maximizing competitive firm that experiences diminishing marginal product of labor is also experiencing
- an upward-sloping demand for labor.
  - a downward-sloping demand for labor.
  - a perfectly elastic supply of labor.
  - a perfectly inelastic supply of labor.

ANSWER: b. a downward-sloping demand for labor.

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

11. If one observes a profit-maximizing firm increasing employment, it is possible to infer that the
- firm is increasing its market share.
  - marginal product is rising.
  - wage exceeds the value of the marginal product.
  - value of the marginal product exceeds the wage.

ANSWER: d. value of the marginal product exceeds the wage.

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

12. If the price of airline tickets rises, what will happen to the demand curve for flight attendants?
- It will shift to the left.
  - It will shift to the right.
  - There will be a movement along the curve.
  - It will remain unchanged; price changes do not shift demand curves.

ANSWER: b. It will shift to the right.

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

13. Which of the following events would cause an increase in the labor supply curve?
- more married women deciding to work
  - a lower Social Security retirement age
  - fewer married men deciding to work
  - tighter restrictions on immigration policy

ANSWER: a. more married women deciding to work

TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM: Y

14. When labor supply increases,
- profit-maximizing firms reduce employment.
  - the marginal productivity of workers always increases.
  - wages increase as long as supply is upward sloping.
  - wages decrease as long as labor demand is downward sloping.

ANSWER: d. wages decrease as long as labor demand is downward sloping.

TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM: Y

15. Which of the following could decrease labor demand?
- an increase in migrant workers
  - a decrease in the labor supply
  - a decrease in demand for the final product produced by labor
  - an increase in the marginal productivity of workers

ANSWER: c. a decrease in demand for the final product produced by labor

TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM: Y

16. When firms are able to increase the amount of physical capital available to workers the
- value of the marginal product of labor will decrease.
  - value of the marginal product of labor will increase.
  - final product price will increase.
  - marginal product of labor will decline.

ANSWER: b. value of the marginal product of labor will increase.

TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM: Y

17. When economists refer to a firm's capital, they are likely to be using the term to describe the
- markets for final goods and services.
  - amount of financing provided by the equity markets.
  - stock of equipment and buildings used in production.
  - amount of bank financing used by the firm.

ANSWER: c. stock of equipment and buildings used in production.

TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM: Y

18. The purchase price of land is
- the price received from the flow of some land services.
  - the price a person pays to own the factor of production.
  - always less than the rental price.
  - the value of the land to the firm this time period.

ANSWER: b. the price a person pays to own the factor of production.

TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM: Y

19. The marginal product of any factor of production depends on
- the price of the final good.
  - the quantity of the factor used.
  - the demand for the final good.
  - whether it is used to produce a good or a service.

ANSWER: b. the quantity of the factor used.

TYPE: M KEY1:D SECTION:4 OBJECTIVE: 5 RANDOM: Y

20. As a result of severe flooding, a farmer loses one-half of his productive farmland. He should expect to see the marginal productivity of his land
- increase.
  - decrease.
  - become negative.
  - remain unchanged.

ANSWER: a. increase.

TYPE: M KEY1:D SECTION:4 OBJECTIVE: 5 RANDOM: Y

21. The change in the supply of one factor
- alters the earnings of all factors.
  - will not alter the marginal productivity of other factors, but may lower their price.
  - will not lower the price of other factors, but may alter their marginal productivity.
  - will not change the value of marginal product for other factors.

ANSWER: a. alters the earnings of all factors.

TYPE: M KEY1:D SECTION:4 OBJECTIVE: 5 RANDOM:Y

Number of Workers	Output	Marginal Product of Labor	Value of Marginal Product of Labor	Wage
0	0			
1	100		\$1000	\$500
2		80	\$800	\$500
3		60		\$500
4	280		\$400	\$500
5		20		\$500

22. Based on the table shown, what is the marginal product of the fourth worker?
- 20
  - 40
  - 60
  - 80

ANSWER: b. 40

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

23. Based on the table shown, how many workers will a profit-maximizing firm hire?
- 5
  - 4
  - 3
  - 2

ANSWER: c. 3

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

24. For the profit-maximizing competitive firm, the value of marginal product curve is
- always rising.
  - the labor supply curve.
  - the labor demand curve.
  - falling only when marginal product is rising.

ANSWER: c. the labor demand curve.

TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

25. The labor supply curve is fundamentally a representation of the trade-off people face between which of the following?
- work and wage
  - work and leisure
  - wage and productivity
  - technology and wage.

ANSWER: b. work and leisure

TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

1 ANSWER: d. inputs used to produce goods and services.

TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2 ANSWER: b. derived demand.

TYPE: M KEY1:D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

- 3 ANSWER: b. wages.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 4 ANSWER: c. inputs and outputs.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 5 ANSWER: b. output per additional unit of input.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 6 ANSWER: c. diminishing marginal product is present.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 7 ANSWER: d. total revenue with the addition of the last worker.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 8 ANSWER: a. the value of the marginal product equals the wage.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 9 ANSWER: b. value of marginal product.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 10 ANSWER: b. a downward-sloping demand for labor.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 11 ANSWER: d. value of the marginal product exceeds the wage.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 12 ANSWER: b. It will shift to the right.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y
- 13 ANSWER: a. more married women deciding to work  
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM: Y
- 14 ANSWER: d. wages decrease as long as labor demand is downward sloping.  
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM: Y
- 15 ANSWER: c. a decrease in demand for the final product produced by labor  
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM: Y
- 16 ANSWER: b. value of the marginal product of labor will increase.  
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM: Y

17 ANSWER: c. stock of equipment and buildings used in production.  
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM: Y

18 ANSWER: b. the price a person pays to own the factor of production.  
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM: Y

19 ANSWER: b. the quantity of the factor used.  
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 5 RANDOM: Y

20 ANSWER: a. increase.  
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 5 RANDOM: Y

21 ANSWER: a. alters the earnings of all factors.  
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 5 RANDOM: Y

22 ANSWER: b. 40  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

23 ANSWER: c. 3  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

24 ANSWER: c. the labor demand curve.  
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM: Y

25 ANSWER: b. work and leisure  
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM: Y