***Modern Labor Economics, 12e* (Ehrenberg/Smith)**

**Chapter 1 Introduction**

1) Labor markets differ from most other markets because

A) contracts exist between buyers and sellers.

B) price and quantity information must be exchanged.

C) resources are allocated.

D) labor services must be rented, not bought or sold.

Answer: D

Question Status: Old

2) Economists generally assume that

A) people both pursue their objectives in a consistent fashion and are forced to make choices due to scarcity.

B) people pursue their objectives in a consistent fashion.

C) people are forced to make choices due to scarcity.

D) habit-bound people are irrational.

Answer: A

Question Status: Old

3) Economists generally assume that workers maximize

A) their income.

B) their leisure time.

C) their utility.

D) their nonpecuniary benefits.

Answer: C

Question Status: Old

4) Economic rationality

A) implies that people have an objective and pursue it in a consistent fashion.

B) implies that people's behavior does not adapt when incentives change.

C) implies that there is no such thing as a free lunch.

D) can be directly proven.

Answer: A

Question Status: Old

5) If there are costs associated with employee turnover, and to reduce these costs, a firm increases the wage it pays its employees, then

A) the firm's profits must decrease.

B) the firm's profits must increase if turnover costs fall.

C) the firm's profits must increase if the turnover rate falls by three percent or more.

D) the firm's profits could increase or decrease, depending on the amount in the wage increase and the change in the turnover rate.

Answer: D

Question Status: Old

6) Redistributional transactions

A) are never voluntary.

B) should not occur.

C) are usually facilitated by the government.

D) are not Pareto efficient.

Answer: C

Question Status: Old

7) Which of these is an example of the *FAILURE* of the market to achieve economic efficiency?

A) Firms and employees successfully achieving all mutually beneficial transactions.

B) Alpha Industries is willing to pay $55,000 per year to hire a computer programmer. Dean, a qualified computer programmer, would gladly give up his job as a waiter for a computer programming job paying at least $45,000, but is unaware of Alpha's opening.

C) Laura refuses to quit smoking even though Marlene offers her $1 per hour to stop.

D) Ace Engineering is willing to pay Diane $11 per hour, but Diane is willing to work for $10 per hour, so Ace hires her for only $10 per hour.

Answer: B

Question Status: Old

8) Public goods are

A) goods donated by their owner for public use.

B) goods that are available to an additional consumer at no cost.

C) goods that are not scarce.

D) goods that can only be produced by the government.

Answer: B

Question Status: Old

9) Nonpecuniary factors do NOT include

A) a worker's hourly wage rate.

B) eyestrain caused by having to stare continually at a computer terminal.

C) an inflexible work schedule that requires commuting during the worst rush-hour traffic.

D) annoyance caused by a rude co-worker.

Answer: A

Question Status: Old

10) Pareto efficiency implies that

A) all legal transactions have taken place.

B) the distribution of income is equitable.

C) all mutually beneficial transactions have taken place.

D) only people facing price distortions still wish to undertake transactions.

Answer: C

Question Status: Old

11) It has been said that "Paul will rarely complain about a plan that takes money from Peter to pay Paul." This suggests that redistributional transactions are usually

A) mutually beneficial transactions.

B) the result of government mandates.

C) voluntary transactions.

D) illegal transactions.

Answer: B

Question Status: Old

12) If all parties gain from a transaction,

A) the government must mandate that transaction.

B) the transaction must be a Pareto improvement.

C) the transaction will not be voluntary for some parties.

D) the transaction will be redistributional.

Answer: B

Question Status: Old

13) Which of the following will NOT prevent a mutually beneficial transaction from occurring?

A) a market where buyers and sellers have internalized all benefits and costs of their transactions

B) ignorance about availability of a service or product

C) a law against overtime work

D) a tax on labor services

Answer: A

Question Status: Revised

14) Which of the following could NOT be a public good?

A) national defense

B) an apple

C) music broadcast by a radio station

D) information about worker safety when using asbestos

Answer: B

Question Status: Old

15) Improvements in equity

A) involve comparing the welfare lost by some against the welfare gained by others.

B) are impossible if the initial distribution is Pareto Optimal.

C) generally increase efficiency.

D) can be scientifically evaluated.

Answer: A

Question Status: Old

16) Cross-sectional data concerns

A) one behavioral unit at many points in time.

B) many behavioral units at many points in time.

C) many behavioral units at a single point in time.

D) one behavioral unit at one point in time.

Answer: C

Question Status: Old

17) A regression shows how the \_\_\_\_\_\_\_\_ is affected by the \_\_\_\_\_\_\_\_.

A) dependent variable; independent variable

B) independent variable; cross-section

C) independent variable; dependent variable

D) independent variable; error term

Answer: A

Question Status: Old

18) If the slope of a regression line is negative, then an increase in the independent variable will cause

A) an increase in the dependent variable.

B) an increase in the error term.

C) a decrease in the dependent variable.

D) a decrease in the error term.

Answer: C

Question Status: Old

19) The most widely used method of estimating a regression line for a data set involves selecting the line

A) on which all data points will fall.

B) which minimizes the sum of the vertical distances between the line and the individual data points.

C) which minimizes the sum of the squared vertical distances between the line and the individual data points.

D) which minimizes the sum of the absolute value of the vertical distances between the line and the individual data points.

Answer: C

Question Status: Old

20) A regression of W = a + bX, where W is wages and X is hours worked per week, yielded a t-statistic of 0.75 for b. Statistically speaking, this result suggests that

A) hours worked are probably positively related to wages.

B) hours worked are probably negatively related to wages.

C) we cannot reject the hypothesis that hours worked are unrelated to wages.

D) hours worked are probably related to wages in a minor way.

Answer: C

Question Status: Old

21) Multiple regression analysis uses

A) several dependent variables.

B) several independent variables.

C) data from several time periods.

D) several error terms.

Answer: B

Question Status: Old

22) Omitted variable bias exists if the omitted variable is

A) unrelated to the dependent variable or the independent variable.

B) related to the dependent variable, but unrelated to the independent variable.

C) related to the independent variable, but unrelated to the dependent variable.

D) related to both the independent variable and the dependent variable.

Answer: D

Question Status: Old

23) A regression estimates that Q = 35 - 0.1 ∗ X, where Q is the quit rate, X is the number of employees at the firm. Both t-statistics are greater than two, and the firm sizes range from 50 to 100. This indicates that doubling the number of employees from 50 to 100 will reduce the quit rate by

A) 50% points.

B) 5% points.

C) 35% points.

D) 10% points.

Answer: B

Question Status: Old

24) A regression of Y = a + bX yields values of a = 4.0 and b = -2.7. This indicates that the slope of the regression line is

A) 4.0.

B) -4.0.

C) 2.7.

D) -2.7.

Answer: D

Question Status: Old

25) A regression estimates that Q = 35 - 0.1 ∗ X, where Q is the quit rate, X is the number of employees at the firm, and the firm sizes in the data set range from 50 to 100. If the firm has 350 employees then

A) its quit rate is predicted to be 70%.

B) its quit rate is predicted to be 35%.

C) its quit rate is predicted to be 0%.

D) we cannot predict the quit rate using this linear model.

Answer: D

Question Status: Old

26) Which of the following is NOT a characteristic of a typical positive economic model?

A) realistic assumptions

B) makes predictions that can be proven false

C) the assumption that people weigh the costs and benefits of their various alternatives

D) makes assumptions that ignore the complexity of behavior

Answer: A

Question Status: Old

27) A law mandating that unions cut wages in order to create more jobs

A) would cause market failure due to price distortion.

B) would be Pareto efficient because it would reduce income inequality.

C) would be Pareto efficient because no one would lose a job and some would get a job.

D) would not be Pareto efficient because such a law would need to be voluntarily accepted by all who are affected by the law.

Answer: D

Question Status: New

28) In Job X, the employer gets a gross benefit of $600 a week from employing a worker (this is the highest wage the employer will pay). The worker is willing to work for the employer if paid $400 a week or more. Which of the following is Pareto efficient?

A) a law mandating a minimum wage of $650 a week

B) a law mandating a maximum wage of $300 a week

C) a law allowing the employer to pay whatever wage they want

D) a law mandating a chauffeured car, costing $250 a week and valued by the worker at $10, be provided by the employer

Answer: C

Question Status: Old

29) A regression estimates that a worker's hourly productivity (P), measured in units of output, is related to hourly wage (W) as follows: Pi = 4.5 + 0.2Wi. This indicates that

A) a firm raising their wage by $10 will reduce their productivity by 2 units.

B) a firm raising their wage by $10 will raise their productivity by 2 units.

C) a worker will produce 2 units when the firm pays a wage of $10.

D) a worker will produce 4.5 units.

Answer: B

Question Status: Revised

30) Which of the following is a positive statement?

A) Mutually beneficial trade is good.

B) Minimum wage laws are not Pareto efficient.

C) All workers should earn, at a minimum, a living wage.

D) All persons who cannot produce enough to earn a living wage should not be allowed to work.

Answer: B

Question Status: Old

31) A government contractor hires a worker to help build a road for an annual wage of $50,000. The worker's annual output is worth $60,000. If the worker did not have this job, the worker would have produced $40,000 a year in an alternative job and would have been paid $30,000 a year. The real cost of using this worker to build the road is

A) $30,000.

B) $40,000.

C) $50,000.

D) $60,000.

Answer: B

Question Status: Old

32) An economist creates an economic model describing how wages will respond when the government imposes higher taxes on workers. According to positive economics, this model is a good model if the model

A) has sufficiently realistic assumptions about workers and employers.

B) is flexible enough to explain the outcome if wages go up or down.

C) is theoretically correct even if its predictions are wrong.

D) accurately predicts how wages in the aggregate adjust to higher taxes.

Answer: D

Question Status: Old

33) Which of the following best illustrates an externality?

A) A worker agrees to work in a dangerous job because it is the best job the worker can get.

B) A job is so dangerous that the employer cannot attract workers, resulting in a good not being produced despite the fact that it is valued by consumers.

C) A local government imposes a payroll tax of $5 per hour on employers causing some jobs, that would have existed in the absence of the tax, to be lost.

D) An employer and worker agree to produce a good with a production method that emits pollution on the nearby community.

Answer: D

Question Status: Revised

34) A buyer values a good at $60 while the good costs a seller $50 to make and sell. The good is sold for a price of $55. Making the good results in pollution that harms people not directly involved in the transaction. When will this transaction result in a market failure?

A) Only when the cost of the pollution exceeds $10.

B) When the pollution has any cost.

C) Only when the cost of pollution exceeds $5.

D) Only when the cost of pollution exceeds $60.

Answer: A

Question Status: Old

35) In a world without scarcity,

A) there would be no costs.

B) there would be no benefits.

C) goods would have no value.

D) there would be no wants.

Answer: A

Question Status: Old

36) A policy by which some parties gain and others lose, but for which the gainers fully compensate the losers is

A) Pareto improving.

B) equitable but inefficient.

C) easily implemented in most circumstances.

D) both inefficient and inequitable.

Answer: A

Question Status: New

37) *Positive economics*

A) is a theory of behavior in which people are assumed to respond favorably to benefits and negatively to costs.

B) is a theory of behavior that only counts positive benefits as contributing to the social "good."

C) is a theory of economics that assumes that labor supply is directly (or positively) related to the level of compensation that employers are willing and able to pay.

D) closely resembles Newtonian physics in that it better describes the relationship between energy and motion in the economy.

Answer: A

Question Status: New

38) *Resource Scarcity*

A) implies that government contractors often build roads that do not meet local road construction standards.

B) implies that individuals and society alike do not have the resources necessary to meet *all* of their wants.

C) is a bit of a hoax perpetrated for political reasons as society (particularly the United States) has an abundance of resources.

D) diminishes as additional workers are applied to a given task of production.

Answer: B

Question Status: New

39) An economic model based in positive economics should be judged

A) by the quality and quantity of its underlying assumptions.

B) by its ability to accurately capture and describe the many complex details of the real economy.

C) by the accuracy of its predictions rather than by the accuracy of its assumptions.

D) on its ability to incorporate the idiosyncratic factors that typically characterize human interactions.

Answer: C

Question Status: New

40) Government policies affecting the labor market

A) are necessary in order to ensure that all mutually beneficial transactions take place.

B) are often based on the positive principle that most markets (even the labor market) require governmental intervention.

C) are generally Pareto improving.

D) are often based on the normative principle that society should try to make the distribution of income more equitable.

Answer: D

Question Status: New

41) Which type of transaction is NOT *Pareto improving*?

A) Some parties gain and some parties lose, and the gains are larger than the losses.

B) Some parties gain and some parties lose, but the gainers fully compensate the losers for their losses.

C) Some parties gain and no one loses.

D) All affected parties gain.

Answer: A

Question Status: New

42) Unskilled workers facing limited opportunities in one region that desire but cannot afford to move to another region where work opportunities are good are in a labor market characterized by

A) market failure due to price distortion.

B) market failure due to a transaction barrier.

C) Pareto efficiency.

D) market failure due to ignorance.

Answer: B

Question Status: New

43) Transactions that impose costs on parties not directly involved in the transaction represent

A) a market failure due to *price distortion*.

B) a form of *public good*, as the costs are shared with the public.

C) a market failure characterized by an *externality*.

D) government intervention to reduce income inequality.

Answer: C

Question Status: New

44) Suppose that Rebecca is willing to work as a coffee barista for anything equal to or over $12 per hour. Java Coffee Shop (JCS) is willing to hire a new barista for anything up to $15 per hour. Which of the following arrangements is most equitable?

A) JCS hires Rebecca at $15 per hour.

B) Rebecca goes to work for JCS at $12 per hour.

C) JCS hires Rebecca for $14 per hour.

D) It is impossible to determine which arrangement is most equitable without defining a subjective standard for "fairness."

Answer: D

Question Status: New

45) Minimum wage laws often block transactions between employers and workers that would otherwise occur at wage rates below the minimum. As a result, minimum wage laws tend to

A) improve equity at the expense of efficiency.

B) improve efficiency at the expense of equity.

C) improve both equity and efficiency.

D) reduce both equity and efficiency.

Answer: A

Question Status: New

46) Which of the following is NOT a distinguishing characteristic of the labor market?

A) Labor services can only be *rented*.

B) Unlike in commodity markets, *non-pecuniary factors* are generally unimportant in employment transactions.

C) There are numerous *institutions* and *regulations* applicable to employment relationships that do not exist in other markets.

D) *Non-pecuniary factors* loom larger in employment transactions than they do in markets for commodities.

Answer: B

Question Status: New