

5 Monopsony – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English

Write it 3 times (English)

monopsony

marginal factor
cost

Recall

In Part A you met the competitive labour market. Now what happens with only **one** big employer:

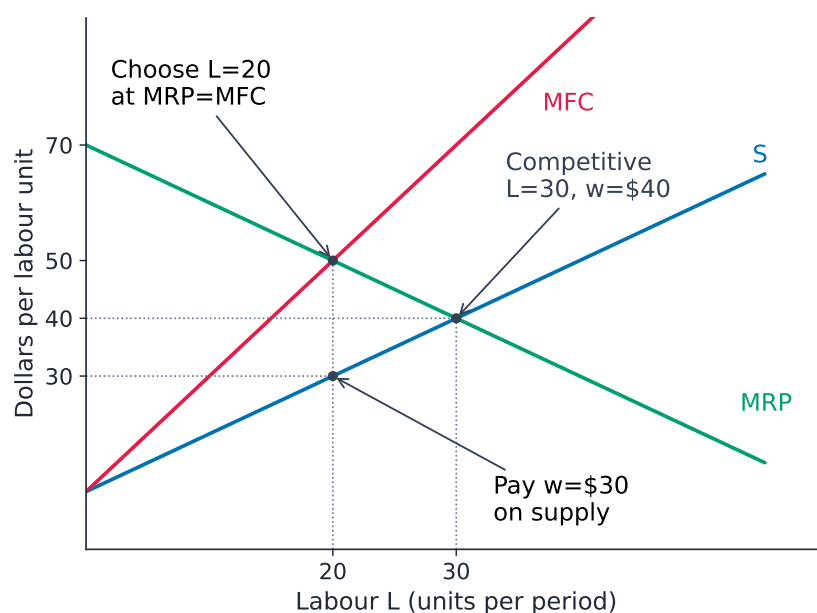
- In some towns, a single large company hires most of the workers.
- With little competition for workers, that firm has power over wages.

Each idea has a worked example before the Practice.

New ideas

■ 1 Monopsony

A **monopsony** is a market with a **single buyer** of a factor – for example, the only big employer in a town.



■ 2 Raising the wage for everyone

Because it is the whole market, to hire more workers the monopsonist must raise the wage **for everyone** – not just the new hire.

■ 3 Marginal factor cost

So the cost of one more worker (the **marginal factor cost**, MFC) is **above** the wage. It is the mirror image of a monopoly, where marginal revenue is below the price.

■ 4 The result

A monopsony hires **fewer** workers at a **lower** wage than a competitive market would – it uses its power over wages to hold both down.

Watch out: a monopsony pays **less** than a competitive market, not more. Its single-buyer power lets it push the wage below what many firms competing for the same workers would offer.

Practice

Try these in order. The methods are all above.

2.1 State what a monopsony is.

[2]

2.2 Explain why a monopsonist must raise the wage for everyone to hire one more worker. [2]

2.3 State whether the marginal factor cost is above or below the wage for a monopsonist. [1]

2.4 Compared with a competitive market, state what a monopsony does to the wage and the number of workers. [2]

2.5 State which everyday situation could create a monopsony. [1]
