5. Factor Markets

Starter Quiz ·

AP Microeconomics Name: _____ Score: _____

1. Factor demand is a ”derived demand” because it comes from:

   ☐ how much workers enjoy their jobs

   ☐ the number of factories

   ☐ the government

   ☐ the value of the product the factor helps make

2. The product a firm sells becomes more valuable. The firm's demand for workers:

   ☐ shifts right (higher MRP)

   ☐ becomes vertical

   ☐ shifts left

   ☐ does not change

3. A firm in a competitive factor market is a **wage taker**, so its marginal factor cost is:

   ☐ constant and equal to the market wage

   ☐ above the market wage

   ☐ below the market wage

   ☐ always zero

4. A monopsony is a factor market with:

   ☐ a single seller of the factor

   ☐ no buyers at all

   ☐ many identical buyers

   ☐ a single buyer of the factor

5. For a competitive seller, MRP equals marginal product times the product _____.

   _____

6. Select **all** that shift factor (labour) **demand**.

   ☐ a change in the price of a related input

   ☐ a change in worker productivity

   ☐ more workers immigrating

   ☐ a change in the product's price

   Tick every correct option.

7. In a competitive factor market the hiring rule simplifies to MRP = _____.

   _____

8. For a monopsony, the marginal factor cost of one more worker is above the wage on the supply curve.

   ☐ True ☐ False

9. A worker adds 8 loaves a day, and each loaf sells for 5. What is this worker's marginal revenue product?

   _____

10. A wave of immigration into a country tends to shift the labour supply curve:

    ☐ left

    ☐ not at all

    ☐ right (more workers available)

    ☐ vertical

AP Microeconomics

1. **the value of the product the factor helps make**

   Firms want a factor only for the goods it produces, so demand is derived from the product.

2. **shifts right (higher MRP)**

   A higher output price raises each worker's MRP, shifting factor demand right.

3. **constant and equal to the market wage**

   It can hire any number at the market wage, so each extra worker costs exactly that wage.

4. **a single buyer of the factor**

   It is the mirror image of a monopoly – one buyer instead of one seller.

5. **price**

   MRP = MP × P – the extra output valued at the price it sells for.

6. **a change in the price of a related input; a change in worker productivity; a change in the product's price**

   Output price, productivity and related-input prices shift demand; more workers shifts supply.

7. **W**

   Since MFC equals the wage W, the firm hires where MRP = W.

8. **True**

   To hire one more it must raise the wage for every worker, so MFC exceeds the wage.

9. **40**

   MRP = MP × P = 8 × 5 = 40.

10. **right (more workers available)**

    More available workers increase labour supply, shifting the curve right.