

5.1 Introduction to Factor Markets

Name: _____ Class: _____ Date: _____

Total: 9 marks

Objective

Build the skills to answer exam questions on **factor markets**.

You must be able to:

- explain that the demand for a **factor of production** is a **derived demand** 派生需求
- calculate the **marginal revenue product (MRP)** 边际收益产品
- calculate the **marginal factor cost (MFC)** 边际要素成本
- state the profit-maximizing hiring rule: employ a factor until $MRP = MFC$

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Derived demand

A firm demands a factor (like labour) only because of the demand for the **good it helps produce**.

■ MRP and MFC

$MRP = MP \times$ price of the good —the extra revenue from one more unit of the factor. MFC is the extra cost of hiring one more unit (the wage, in a competitive factor market).

■ Hiring rule

Hire until $MRP = MFC$. The factor demand curve is the firm's **MRP** curve.

2 Practice

2.1 State what "derived demand" means for a factor of production. [1]

2.2 A worker's marginal product is 5 units, and each unit sells for \$4. Find the worker's MRP. [2]

2.3 State the profit-maximizing hiring rule. [1]

3 Exam-style questions

3.1 The marginal revenue product of labour is [1]

- **A** marginal product \times price
 - **B** the wage
 - **C** total revenue
 - **D** marginal cost
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3.2 A firm hires labour until [1]

- **A** $MRP > MFC$
 - **B** $MRP = MFC$
 - **C** $MRP < MFC$
 - **D** the wage is zero
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3.3 A worker adds 8 units of output, each selling for \$5; the wage is \$30.

(a) Find the worker's MRP. [1]

(b) State whether the firm should hire this worker. [1]

(c) Explain why. [1]

4 Go further

- work through the **5.1 Introduction to Factor Markets** lesson on the **Learn** page;
- read the **Factor Markets** section of the AP Microeconomics handout on the **Know** page.

Solutions

2.1 the demand for it comes from the demand for the good it helps produce.

2.2 $MRP = MP \times P = 5 \times 4 = \20 .

2.3 hire the factor until its marginal revenue product equals its marginal factor cost.

3.1 A.

3.2 B.

3.3 (a) $MRP = 8 \times 5 = \$40$. (b) yes, hire the worker. (c) the MRP (\$40) exceeds the wage (\$30), so the worker adds more revenue than cost.