

5.4 Monopsonistic Markets

Name: _____ Class: _____ Date: _____

Total: 8 marks

Objective

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

You must be able to:

- define a **monopsony** 买方垄断 as a factor market with a single buyer
- explain why a monopsonist's **marginal factor cost** lies above the supply curve
- determine the monopsonist's quantity of labour and the wage it pays
- explain why a monopsony hires **fewer** workers at a **lower** wage than a competitive market

1 Worked examples

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

■ Monopsony

A factor market with a **single buyer** (e.g. the only employer in a town).

■ MFC above supply

To hire one more worker it must raise the wage for **all** workers, so its **marginal factor cost** rises **above** the labour supply curve.

■ Outcome

It hires where $MRP = MFC$, then pays the lower wage from the **supply** curve — so **fewer** workers at a **lower** wage than a competitive market. A well-set **minimum wage** can raise both the wage and employment.

2 Practice

2.1 Define a monopsony. [1]

2.2 State why a monopsonist's marginal factor cost lies above the supply curve. [1]

2.3 State how a monopsony's wage compares with a competitive market's wage. [1]

3 Exam-style questions

3.1 A monopsony is a factor market with a single [1]

- A seller
 - B buyer
 - C worker
 - D union
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3.2 Compared with a competitive market, a monopsony hires [1]

- A more workers at a higher wage
 - B fewer workers at a lower wage
 - C the same workers at the same wage
 - D no workers at all
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3.3 A single large employer dominates a town's labour market.

(a) Name this market structure. [1]

(b) State whether it pays more or less than a competitive wage. [1]

(c) State how a well-set minimum wage could affect employment. [1]

4 Go further

- work through the **5.4 Monopsonistic Markets** lesson on the **Learn** page;
- read the **Factor Markets** section of the AP Microeconomics handout on the **Know** page.

Solutions

2.1 a factor market with only one buyer of the factor.

2.2 to hire one more worker it must raise the wage for all workers, so the extra cost exceeds that worker's wage.

2.3 it is lower.

3.1 B.

3.2 B.

3.3 (a) a monopsony. (b) less. (c) it can raise both the wage and employment.