Practice Test

Wage Determination

1. Real wages in the United States in the long run:
A. show no discernible relationship to output per worker.
**B.** have increased at about the same rate as increases in output per worker.
C. have increased slower than increases in output per worker.
D. have increased faster than increases in output per worker.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-01 Explain why labor productivity and real hourly compensation track so closely over time.
Topic: Labor, wages, and earnings; general level of wages*

3. If the nominal wages of carpenters rose by 5 percent in 2010 and the price level increased by 3 percent, then the real wages of carpenters:
A. decreased by 2 percent.
**B.** increased by 2 percent.
C. increased by 3 percent.
D. increased by 8 percent.

*AACSB: Analytic
Bloom's: Level 3 Apply
Difficulty: 2 Medium
Learning Objective: 13-01 Explain why labor productivity and real hourly compensation track so closely over time.
Topic: Labor, wages, and earnings; general level of wages*

4. Over the long run, real earnings per worker can increase only at about the same rate as the economy's rate of growth of:
A. total output.
B. stock of capital.
**C.** output per worker.
D. international trade.

*AACSB: Reflective Thinking
Bloom's: Level 2 Understand
Difficulty: 2 Medium
Learning Objective: 13-01 Explain why labor productivity and real hourly compensation track so closely over time.
Topic: Labor, wages, and earnings; general level of wages*

5. Increases in the productivity of labor result partly from:
A. the law of diminishing returns.
**B.** improvements in technology.
C. reductions in wage rates.
D. increases in the quantity of labor.

*AACSB: Analytic
Bloom's: Level 2 Understand
Difficulty: 2 Medium
Learning Objective: 13-01 Explain why labor productivity and real hourly compensation track so closely over time.
Topic: Labor, wages, and earnings; general level of wages*

10. The productivity and real wages of workers in industrially advanced economies have risen historically partly because:
A. workers have acquired less education and training over time.
**B.** workers have been able to use larger quantities of capital equipment.
C. over time the capital equipment used by workers has deteriorated in quality.
D. the supply of labor has increased.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-01 Explain why labor productivity and real hourly compensation track so closely over time.
Topic: Labor, wages, and earnings; general level of wages*

11. If the nominal wage rises by 4 percent, and the price level rises by 7 percent, the real wage will:
A. be unaffected.
B. rise by 3 percent.
**C.** fall by 3 percent.
D. rise by 11 percent.

*AACSB: Analytic
Bloom's: Level 3 Apply
Difficulty: 2 Medium
Learning Objective: 13-01 Explain why labor productivity and real hourly compensation track so closely over time.
Topic: Labor, wages, and earnings; general level of wages*

89. Occupational licensing:
A. functions essentially the same as inclusive unionism.
B. attracts large numbers of workers and therefore depresses wages.
**C.** often restricts occupational entry and raises the incomes of license holders.
D. has been declared illegal in the majority of states.

92. The electricians' union is a good example of:
**A.** exclusive unionism.
B. an industrial union.
C. how unions can simultaneously increase wage rates and employment by increasing the demand for labor.
D. inclusive unionism.

94. Construction workers frequently sponsor political lobbying in support of greater public spending on highways and public buildings. One reason for this is to:
A. restrict the supply of construction workers.
B. increase the elasticity of demand for construction workers.
**C.** increase the demand for construction workers.
D. increase the price of substitute inputs.

*AACSB: Reflective Thinking
Bloom's: Level 3 Apply
Difficulty: 2 Medium
Learning Objective: 13-04 Discuss how unions increase wage rates and how minimum wage laws affect labor markets.
Topic: Three union models*

100. Authoritative estimates suggest that currently union workers on the average:
A. achieve no wage advantage over nonunion workers in the same occupation.
B. realize a 5 percent wage advantage over nonunion workers in the same occupation.
C. realize a 20-30 percent wage advantage over nonunion workers in the same occupation.
**D.** realize a 15 percent wage advantage over nonunion workers in the same occupation.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-04 Discuss how unions increase wage rates and how minimum wage laws affect labor markets.
Topic: Three union models*

115. Critics of minimum-wage legislation argue that it:
A. keeps inefficient producers in business.
**B.** reduces employment.
C. undermines incentives to work.
D. is deflationary.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-04 Discuss how unions increase wage rates and how minimum wage laws affect labor markets.
Topic: Minimum wage controversy*

116. Many economists are critical of the minimum wage because they believe that it:
A. hurts the efforts of labor unions.
**B.** reduces the number of available job opportunities.
C. conflicts with policies designed to equalize the distribution of income.
D. causes labor shortages in affected markets.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-04 Discuss how unions increase wage rates and how minimum wage laws affect labor markets.
Topic: Minimum wage controversy*

121. If all workers are homogeneous, all jobs are equally attractive to workers, and labor markets are perfectly competitive:
A. compensating differences would cause wage differentials.
B. noncompeting groups of workers would result in wage differentials.
**C.** all workers would receive the same wage rate.
D. worker mobility would occur such that wage differentials would widen.

*AACSB: Reflective Thinking
Bloom's: Level 4 Analyze
Difficulty: 3 Hard
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

122. Wage differentials may result from all the following *except*:
A. differences in the nonmonetary aspects of various occupations.
B. differences in the education and skills of workers.
C. geographic and sociological immobilities of workers.
**D.** the tendency of qualified workers to move from lower pay jobs to higher pay jobs.

*AACSB: Analytic
Bloom's: Level 2 Understand
Difficulty: 2 Medium
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

123. Suppose all workers are identical, but working for Ajax is more pleasant than working for Acme. In all other nonwage aspects the two firms offer the same job characteristics. We would expect:
A. wage rates at Ajax to be higher than at Acme.
**B.** wage rates at Ajax to be lower than at Acme.
C. wage rates at Ajax and Acme to be the same.
D. workers at Ajax would have to be monitored more closely than at Acme.

*AACSB: Reflective Thinking
Bloom's: Level 3 Apply
Difficulty: 2 Medium
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

125. Compensating differences in wages:
A. compensate workers for differences in their human capital.
**B.** are wage differences that compensate for differences in the desirability of jobs.
C. describe the tendency for the wages of all occupations to adjust to the median level.
D. do not exist if jobs have different nonmonetary characteristics.

*AACSB: Analytic
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

129. The concept of investment in human capital indicates that:
A. union workers are better educated and more productive than nonunion workers.
**B.** expenditures on education can be explained in essentially the same way as expenditures on machinery and equipment.
C. worker productivity correlates negatively with annual earnings.
D. the level of education is unrelated to the level of one's income.

*AACSB: Reflective Thinking
Bloom's: Level 2 Understand
Difficulty: 2 Medium
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

130. Data on education and earnings reveal:
A. negative age-earnings profiles for male workers.
B. no relationship between the two.
**C.** a positive relationship between the two.
D. a negative relationship between the two.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

131. According to age-earnings data,
A. lower educated workers have similar earnings at age 65 as higher educated workers.
**B.** investments in education result in higher earnings.
C. high earnings are due to motivation and innate ability, rather than education.
D. there is no clear relationship between education and worker productivity.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

132. The earnings of highly educated workers:
A. rise more slowly than those of less-educated workers.
**B.** rise more rapidly than those of less-educated workers.
C. rise at about the same rate as those of less-educated workers.
D. stagnate earlier than do those of less-educated workers.

*AACSB: Reflective Thinking
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

133. Economists regard expenditures on education as investments because:
A. they are subject to tax deductions at the same rate as are expenditures on machinery and equipment.
B. education is economically beneficial at the same time it is being acquired.
**C.** such expenditures are current costs that are intended to enhance future earnings.
D. they differ from expenditures on health and worker mobility.

*AACSB: Reflective Thinking
Bloom's: Level 2 Understand
Difficulty: 2 Medium
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

134. Which of the following involves the creation of human capital?
A. the XYZ Corporation upgrades the machinery on its assembly line
**B.** Jones receives apprenticeship training as a carpenter
C. Smith buys 30 shares of common stock
D. a retired person decides to reenter the labor force

*AACSB: Reflective Thinking
Bloom's: Level 3 Apply
Difficulty: 2 Medium
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

135. Human capital is best defined as:
**A.** the productive skills and knowledge that workers acquire from education and training.
B. the substitution of labor for machinery in the production process.
C. any piece of machinery that must be combined with labor to be productive.
D. the exchange of money for real assets.

*AACSB: Analytic
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

136. Which of the following is a *market* *imperfection* that might explain persistent wage differentials within an occupation?
A. movement of labor from lower-wage to higher-wage jobs
B. readily available information about job opportunities and pay
C. principal-agent problems
**D.** discrimination

*AACSB: Analytic
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

137. Which of the following is a *market* *imperfection* that might explain persistent wage differentials within an occupation?
**A.** geographical immobility of workers
B. readily available information about job opportunities and pay
C. principal-agent problems
D. compensating wage differentials

*AACSB: Analytic
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*

143. In the context of labor markets, shirking refers to:
A. the nonmonetary disadvantages of certain jobs.
**B.** the neglecting or evading of work.
C. the elimination of monitoring costs.
D. any scheme where pay is directly related to worker output.

*AACSB: Analytic
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-06 Indentify the types; benefits; and costs of "pay-for-performance" plans.
Topic: Pay for performance*

145. The idea of efficiency wages is that:
A. the wages of each type of labor must be proportionate to their marginal products.
B. the wages of each type of labor must be equal to their marginal products.
**C.** firms might get greater work effort by paying above-equilibrium wage rates.
D. workers are more diligent when paid below-equilibrium wages.

*AACSB: Analytic
Bloom's: Level 1 Remember
Difficulty: 1 Easy
Learning Objective: 13-06 Indentify the types; benefits; and costs of "pay-for-performance" plans.
Topic: Pay for performance*

149. For the firm, the *major* goal of profit sharing plans is to:
A. force workers to incur some of the business risk.
B. overcome the monopsony problem of having to pay higher wages to attract additional workers.
**C.** overcome the principal-agent problem by better aligning the workers' interests with those of the firm.
D. reduce total compensation payments.

*AACSB: Reflective Thinking
Bloom's: Level 2 Understand
Difficulty: 2 Medium
Learning Objective: 13-06 Indentify the types; benefits; and costs of "pay-for-performance" plans.
Topic: Pay for performance*

156. (Last Word) The dispute over the pay of Chief Executive Officers (CEOs) of U.S. corporations hinges on whether or not such pay:
A. should be granted for past performance or for current performance.
B. is determined in a competitive labor market or in a monopsonistic labor market.
**C.** is justified on productivity grounds or mainly reflects an overestimation of CEO importance by corporate boards of directors.
D. should contain performance incentives such as stock options, stock shares, or bonuses.

 151. One of the potential negative side-effects of pay in the form of sales commissions is:
**A.** a greater incentive for sales people to engage in unethical or fraudulent sales practices that may eventually cause legal problems for the firm.
B. increased volatility of sales revenue for the firm.
C. the potential that pay levels may get so high that they will increase a firm's marginal wage cost more than its marginal revenue product.
D. an increased likelihood of shirking by workers.

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Bloom's: Level 3 Apply
Difficulty: 2 Medium
Learning Objective: 13-05 List the major causes of wage differentials.
Topic: Wage differentials*