ECON 2002.01 PROBLEM SET 3

Unit 6
Hui-Jun Chen

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① (OUP-U6-Q1) Which of the following statements is true? _____

 (A) An order given in a firm is a request for a job that can be rejected by the employee.

 (B) In a market, prices motivate and constrain people's actions, and are determined as a result of the actions of a large number of participants.

 (C) Contracts for products sold in markets temporarily transfer authority over the product from the seller to the buyer.

 (D) Asymmetric information in a firm is the details about the asymmetry of authority within the firm.

② (OUP-U6-Q2) Which of the following statements is true? _____

 (A) The managers are residual claimants of the firm's profits.

 (B) The owners of a firm are the only individuals who hold the firm's shares.

 (C) With the separation of ownership and control, decisions are made by managers while the benefits of the decisions accrue to the owners.

 (D) The separation of ownership and control has costs that almost always outweigh the benefits.

③ (OUP-U6-Q3) Which of the following statements regarding employment contracts are correct? _____

 (A) The firm is required to state exactly what it needs the employee to do in an employment contract.

 (B) The firm needs to specify exactly how much effort employees are expected to put into their job.

(C) Employees' effort levels cannot be the basis of an enforceable contract.

(D) Employment contracts are incomplete as they can only specify things that both the employees and the business owner care about.

(4) (OUP-U6-Q8) Thomas earns £12 per hour in his current job and works 36 hours a week. He loves his job and puts in his maximum effort with no disutility. In fact, Thomas earns extra utility worth £3 per hour from camaraderie, status, and enjoyment of the job. If he loses this job Thomas has two choices. Either he is able to be self-employed, which earns him £7 an hour for 36 hours a week of work but also gives him disutility equivalent to £2 per hour, or he can be unemployed and receive an unemployment benefit of £150 per week. Thomas is expected to be able to find another job similar to his current one in 24 weeks. Then: _____

(A) Thomas's next best option is to be unemployed.

(B) The employment rent per hour is £8.

(C) Thomas's employment rent is £9,360.

(D) If Thomas chooses the self-employment option then his loss of employment rent is £8,640.

(5) (OUP-U6-Q13) Consider isocost lines drawn on a graph with hourly wage on the horizontal axis and effort per hour on the vertical axis. Which of the following statements is correct? _____

(A) Isocost lines intersect the horizontal axis at the reservation wage.

(B) The slope of the isocost line is the employer's marginal rate of transformation of higher wages into worker effort.

(C) Steeper isocost lines represent higher cost per unit of effort.

(D) For an isocost lines with a slope of 0.07, the cost of unit of effort is $14.3.

(6) (OUP-U6-Q16) The figure depicts the efficiency wage equilibrium of a worker and a firm. Based on this information, which of the following statements is correct? _____
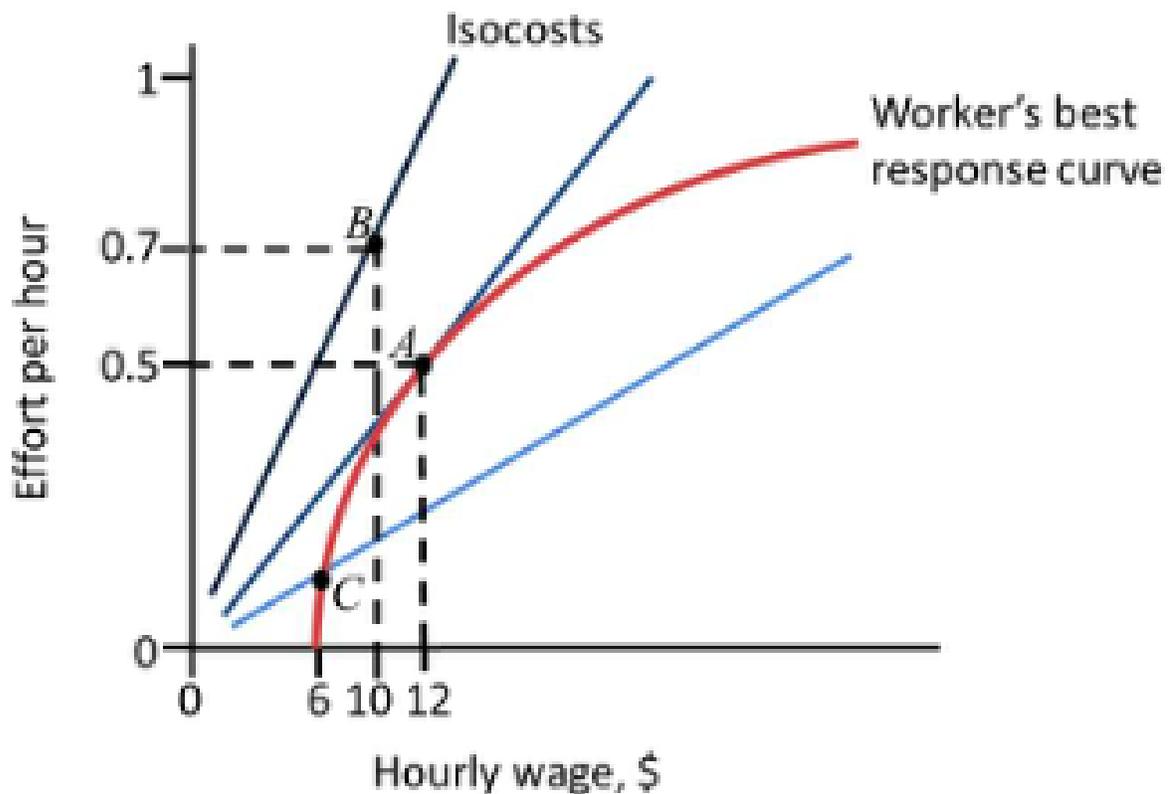
(A) At A, given that the firm pays the hourly wage of $12, the worker's best response is to exert an effort of 0.5.

(B) At A, given that the worker exerts an effort level of 0.5, the firm's best response is to offer the hourly wage of $12.

(C) Therefore the worker receives no rent.

(D) The employer makes profits by coercing the worker to put in some effort.

⑦ (UCL-J15-Q3) If unemployment benefits increase: _____

(A) A worker's effort increases because the employment rent increases.

(B) Effort decreases because the disutility of effort decreases.

(C) The employment rent will fall unless the firm raises the wage.

(D) The employment rent will increase unless the firm raises the wage.

(8) (OUP-U6-Q19) Consider a worker's best response curve in the labour discipline model. Currently the firm chooses to pay £12 per hour to minimise the cost of effort, which induces an effort level of 0.6 from the worker. Now consider a rise in the unemployment benefit. Then: _____

(A) At the wage rate of £12 per hour the worker will now exert more than 0.6 of effort.

(B) The firm can lower the wage rate to below £12 to maintain the effort level of 0.6.

(C) The firm's new wage offer that minimises the cost of effort will be higher than £12.

(D) The firm's maximum units of effort per dollar of wage cost will be higher than before the rise in the unemployment benefit.

(9) (TEA-U6-Q2) Which of the following statements best describes the game played by the employer and the employee in the labour discipline model? _____

(A) The game is a simultaneous game in which the employer chooses the wage level and the employee chooses the effort level simultaneously.

(B) The game is a one-off game in which the wage and effort levels are determined once and for all.

(C) The worker selects the effort level that balances his desire to keep his job with his desire to not exhaust himself on the job.

(D) The employer will attempt to maximise the firm's profits by offering a wage equal to the worker's reservation wage.

(10) (ECO-U6-Q5) Maria earns $12 per hour in her current job and works 35 hours a week. Her disutility of effort is equivalent to a cost of $2 per hour of work. If she loses her job, she will receive unemployment benefit equivalent to $6 per hour. Additionally, being unemployed has psychological and social costs equivalent to $1 per hour. Then: _____

(A) The employment rent per hour is $3.

(B) Maria's reservation wage is $6 per hour.

(C) Maria's employment rent if she can get another job with the same wage rate after 44 weeks of being unemployed is $6,160.

(D) Maria's employment rent if she can only get a job at a lower wage rate after 44 weeks of being unemployed is more than $7,700.