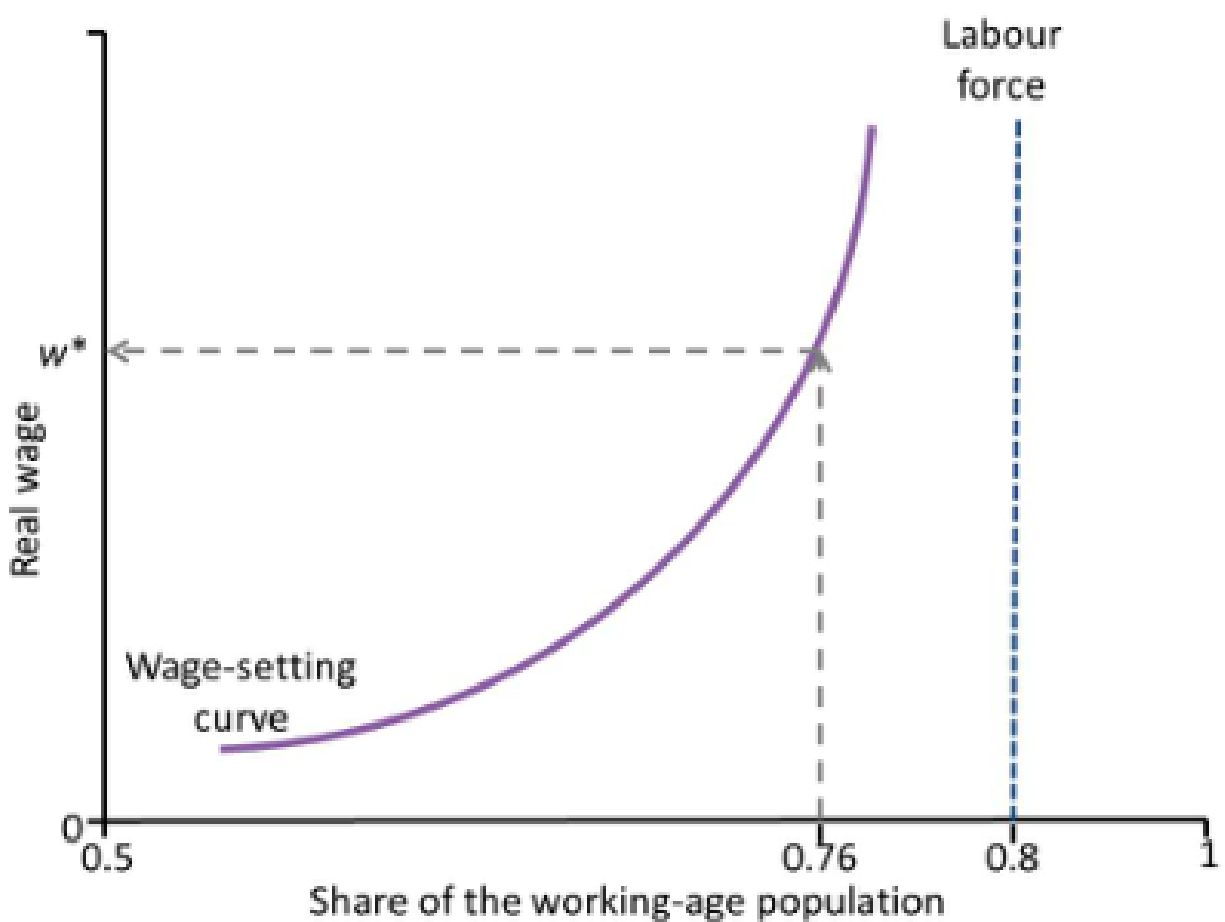


ECON 2002.01 PROBLEM SET 5

Unit 9

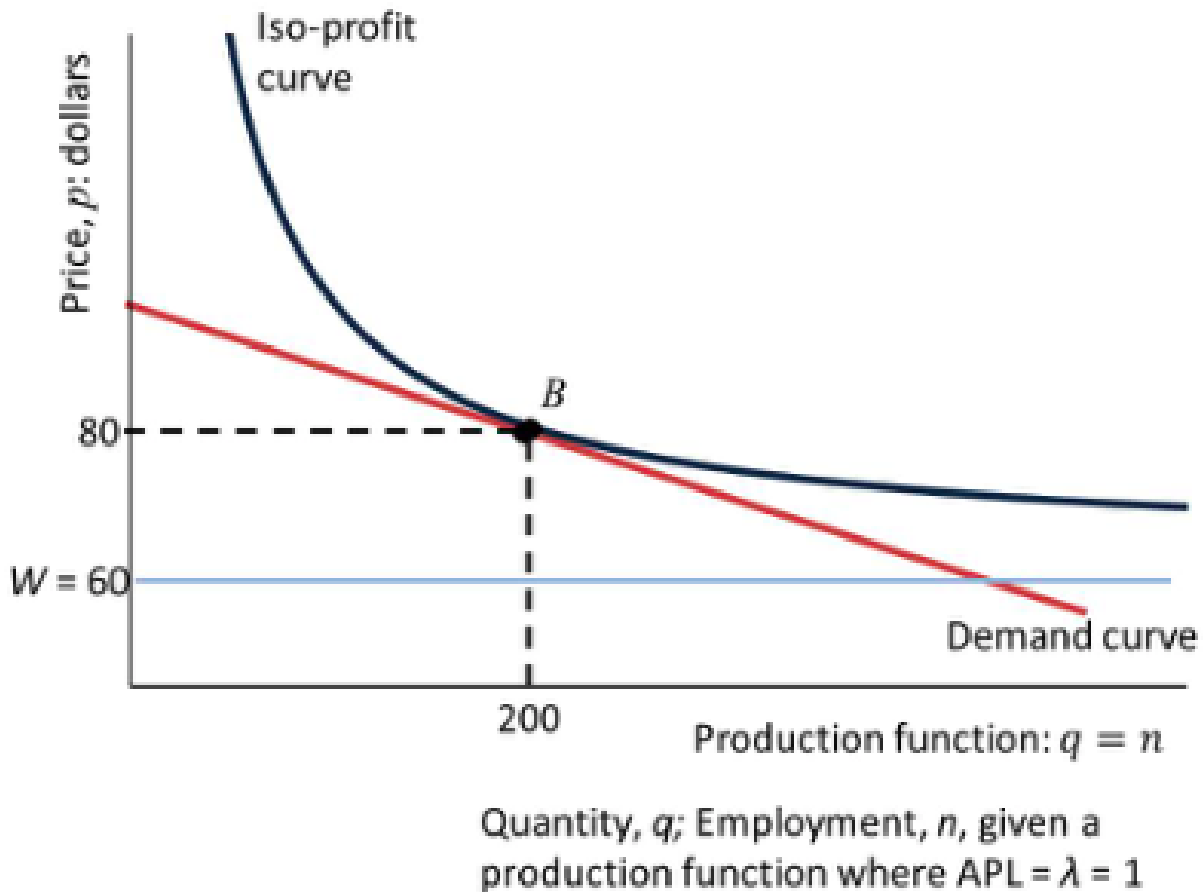
Hui-Jun Chen

- ① (OUP-U9-Q3) The figure shows the wage-setting curve and the real wage w^* . Which of the following statements is correct?



- (A) The unemployment rate is 5%.
(B) The participation rate is 76%.
(C) The employment rate is 95%.
(D) 4% of the population is unemployed.

- ② (OUP-U9-Q14) _____ The following diagram depicts a firm's demand curve given the economy-wide demand, and its tangent isoprofit curve. The firm faces a linear demand curve. The workers' average product of labour λ equals 1. At B, which of the following statements is correct?



- (A) The slope of the isoprofit curve is -0.4 .
- (B) The markup is 0.1 .
- (C) Profits are $\$16,000$.
- (D) The marginal rate of substitution is -0.1 .
- ③ (OUP-U9-Q23) Which of the following statements regarding labour unions and wage bargaining is correct? _____
- (A) The bargaining curve can be above or below the wage-setting curve.
- (B) A labour union can set both the wage level and the employment level.

- (C) Unions may choose to restrain their use of bargaining power.
- (D) The unions' bargaining power comes from their ability to shut down firms.

④ (TEA-U9-Q2) Which of the following statements about the wage-setting curve is correct? _____

- (A) The wage-setting curve depicts the workers' reservation wage for different levels of economy-wide employment.
- (B) At each point (U, w) on the wage-setting curve, the workers are choosing their best response effort level given the real wage (w) and unemployment rate (U) .
- (C) A lower unemployment rate shifts the wage-setting curve to the left.
- (D) An exodus of European workers due to Brexit would, *ceteris paribus*, result in a downward shift of the UK's wage-setting curve.

⑤ (TEA-U9-Q3) Which of the following statements about the price-setting curve is correct? _____

- (A) The price-setting curve depicts the firms' profit-maximising price level for different levels of economy-wide employment.
- (B) Firms have to pay a higher real wage when the employment rate is higher. Therefore the price-setting curve is upward-sloping.
- (C) At points below the price-setting curve, the firms are setting prices too high compared to their profit-maximising level.
- (D) The reduction in competition from Europe due to Brexit would result in the UK's price-setting curve shifting up.

⑥ (ECO-U9-Q1) Which of the following statements is correct? _____

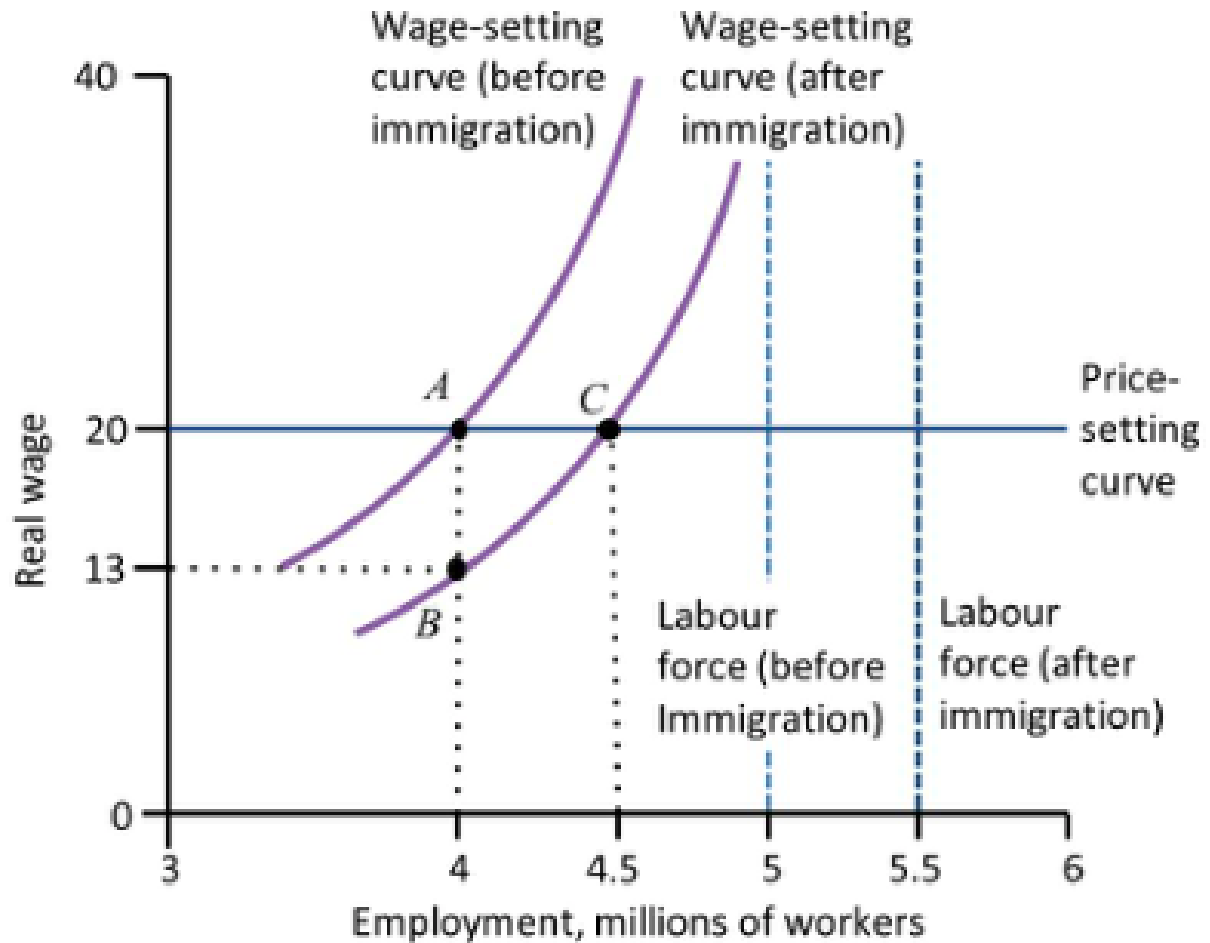
- (A) To maximize profits, firms set the wage at the level where the workers are indifferent between working and not working.
- (B) Firms aim to set as high a price as possible.

- (C) In equilibrium, the wage clears the labour market, so there is no unemployment.
- (D) If all firms set the same price and pay the same nominal wage, then the higher the real wage that they pay, the lower is their markup.

⑦ (UCL-J17-Q14) In the equilibrium of the labour market: _____

- (A) There is excess demand for workers to make sure the workers put in sufficient effort.
- (B) The greater the level of labour productivity, the higher the real wage.
- (C) The price-setting curve lies above the average product of labour.

⑧ (OUP-U9-Q22) The figure describes the effect of immigration on unemployment in the labour market. The labour market equilibrium is at A and C before and after the influx of immigration, respectively. Based on this figure, which of the following statements is correct?



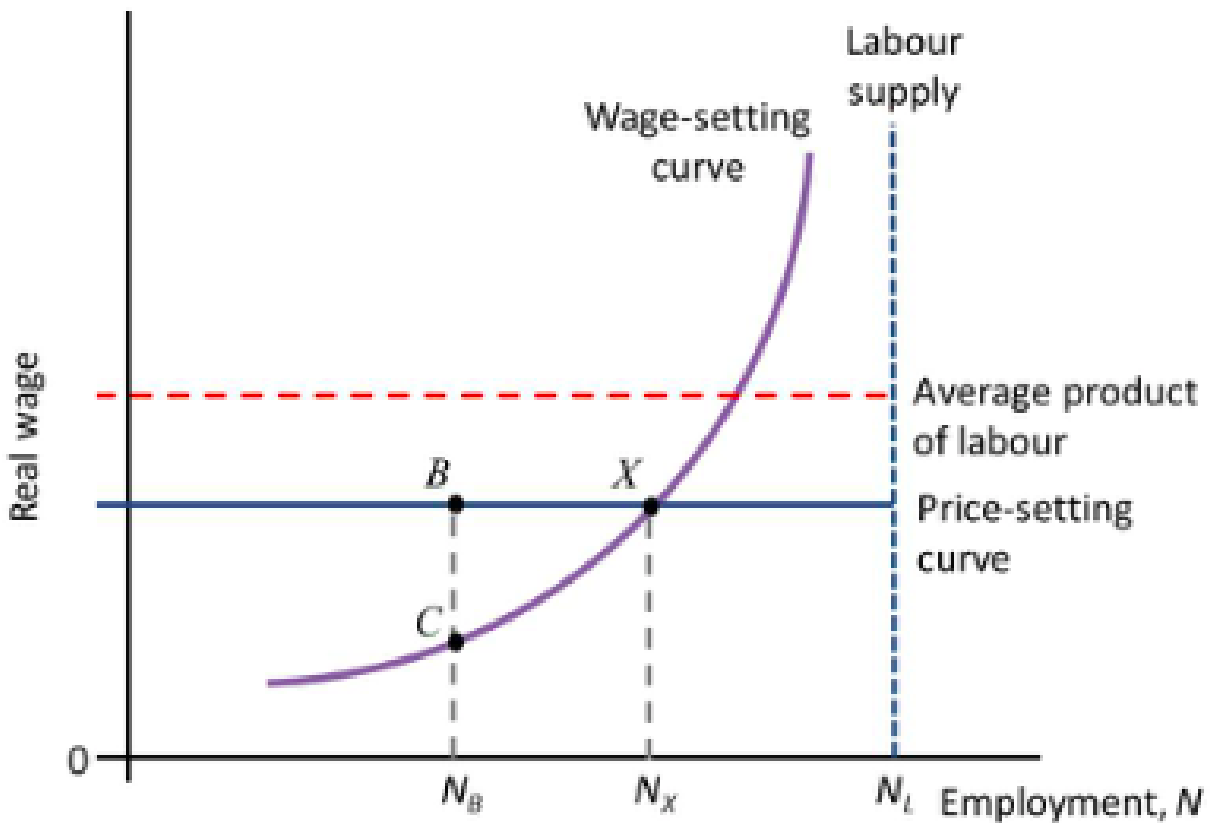
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- (A) All incumbent workers are unaffected while the labour market adjusts.
 - (B) All incumbent workers are no worse off in the new equilibrium.
 - (C) The unemployment rate is unchanged in the new equilibrium.
 - (D) Firms claim a higher markup in the new equilibrium.

⑨ (OUP-U9-Q1) Consider an economy with firms selling differentiated products, where the only input to production is labour. Which of the following statements is correct? _____

- (A) Firms make no economic rent.
- (B) Workers receive no employment rent.

- (C) Firms choose the level of nominal wage that corresponds to the workers' maximum effort.
- (D) The more inelastic the demand curve faced by the firm, the higher the markup set by the firm.

⑩ (OUP-U9-Q17) The figure depicts the labour market when there has been a negative aggregate demand shock. Which of the following statements is correct? _____



- (A) B is not a Nash equilibrium outcome.
- (B) C is a Nash equilibrium outcome.
- (C) At C, firms are able to make higher profits by increasing the price.
- (D) Moving from B to C eliminates cyclical unemployment.