Exercise walk-through

Monopsonistic Markets ▪ 5.4

eXercise

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

Method — Monopsony

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

Method — 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.

Method — 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.

Practice 2.1 ▪ 1 mark

Define a monopsony.

Solution 2.1

Worked steps

a factor market with only one buyer of the factor **B1**.

Practice 2.2 ▪ 1 mark

State why a monopsonist's marginal factor cost lies above the supply curve.

Solution 2.2

Method: MFC above supply

Worked steps

to hire one more worker it must raise the wage for all workers, so the extra cost exceeds that worker's wage **B1**.

Practice 2.3 ▪ 1 mark

State how a monopsony's wage compares with a competitive market's wage.

Solution 2.3

Method: Outcome

Worked steps

it is lower **B1**.

Exam-style 3.1 ▪ 1 mark

A monopsony is a factor market with a single

A seller

B buyer

C worker

D union

Solution 3.1

Method: Monopsony

A seller

B buyer ✓

C worker

D union

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

Compared with a competitive market, a monopsony hires

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

Solution 3.2

Method: Outcome

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

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

A single large employer dominates a town's labour market.
(a) Name this market structure.
(b) State whether it pays more or less than a competitive wage.
(c) State how a well-set minimum wage could affect employment.

Solution 3.3

Method: Outcome

Worked steps

(a) a monopsony **B1**. (b) less **B1**. (c) it can raise both the wage and employment **B1**.