

AP Microeconomics

Name: _____ Score: _____

1. Factor demand is a "derived demand" because it comes from:
 - ☐ the value of the product the factor helps make
 - ☐ how much workers enjoy their jobs
 - ☐ the government
 - ☐ the number of factories
2. The product a firm sells becomes more valuable. The firm's demand for workers:
 - ☐ shifts right (higher MRP)
 - ☐ shifts left
 - ☐ does not change
 - ☐ becomes vertical
3. A firm in a competitive factor market is a **wage taker**, so its marginal factor cost is:
 - ☐ constant and equal to the market wage
 - ☐ above the market wage
 - ☐ below the market wage
 - ☐ always zero
4. A monopsony is a factor market with:
 - ☐ a single buyer of the factor
 - ☐ a single seller of the factor
 - ☐ many identical buyers
 - ☐ no buyers at all
5. For a competitive seller, MRP equals marginal product times the product _____.

6. Select **all** that shift factor (labour) **demand**.
 - ☐ a change in the product's price
 - ☐ a change in worker productivity
 - ☐ a change in the price of a related input
 - ☐ more workers immigrating

Tick every correct option.

7. In a competitive factor market the hiring rule simplifies to $MRP =$ _____.
- _____
8. For a monopsony, the marginal factor cost of one more worker is above the wage on the supply curve.
- ☐ True ☐ False
9. A worker adds 8 loaves a day, and each loaf sells for 5. What is this worker's marginal revenue product?
- _____
10. A wave of immigration into a country tends to shift the labour supply curve:
- ☐ right (more workers available)
- ☐ left
- ☐ not at all
- ☐ vertical

1. the value of the product the factor helps make

Firms want a factor only for the goods it produces, so demand is derived from the product.

2. shifts right (higher MRP)

A higher output price raises each worker's MRP, shifting factor demand right.

3. constant and equal to the market wage

It can hire any number at the market wage, so each extra worker costs exactly that wage.

4. a single buyer of the factor

It is the mirror image of a monopoly — one buyer instead of one seller.

5. price

$MRP = MP \times P$ — the extra output valued at the price it sells for.

6. a change in the product's price; a change in worker productivity; a change in the price of a related input

Output price, productivity and related-input prices shift demand; more workers shifts supply.

7. W

Since MFC equals the wage W , the firm hires where $MRP = W$.

8. True

To hire one more it must raise the wage for every worker, so MFC exceeds the wage.

9. 40

$MRP = MP \times P = 8 \times 5 = 40$.

10. right (more workers available)

More available workers increase labour supply, shifting the curve right.