Labor Economics 7th edition George Borjas Test Bank

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Chapter 02

Labor Supply

Multiple Choice Questions

1. Who is not counted in the U.S. labor force?

   A. A person working 15 hours a week or more not for pay.
   B. A fulltime college student.
   C. A person working at least one hour for pay per week.
   D. Someone actively looking for a job.
   E. A 70-year-old person who supplements his social security payments by working 8 hours each week at minimum wage.

2. Of the 500,000 people (age 16+) in a particular country, 300,000 people are in the labor force. Of these, 240,000 are employed and 60,000 are unemployed. What is the labor force participation rate?

   A. 25%
   B. 48%
   C. 55%
   D. 60%
   E. 80%

3. Of the 500,000 people (age 16+) in a particular country, 300,000 people are in the labor force. Of these, 240,000 are employed and 60,000 are unemployed. What is the unemployment rate?

   A. 10%
   B. 20%
   C. 25%
   D. 35%
   E. 40%

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4.

Of the 500,000 people (age 16+) in a particular country, 300,000 people are in the labor force. Of these, 240,000 are employed and 60,000 are unemployed. Of the 200,000 workers not in the labor force, 20,000 want jobs but have given up looking for one. What is the unemployment rate if discouraged workers (i.e., the hidden unemployed) are counted as being unemployed?

A. 10%
B. 20%
C. 25%
D. 48%
E. 60%

5. How does the presence of an underground labor market bias the government's calculation of the labor force participation rate?

A. The official government statistic on labor force participation is too low, because people working in the underground labor market should be counted as participating in the labor market.
B. The official government statistic on labor force participation is too high, because people working in the underground labor market should be counted as participating in the labor market.
C. The official government statistic on labor force participation is too low, because people working in the underground labor market should not be counted as participating in the labor market.
D. The official government statistic on labor force participation is too high, because people working in the underground labor market should not be counted as participating in the labor market.
E. The official government statistic on labor force participation is identical to actual labor market participation whether or not there is an underground labor market.

6. How does the labor force participation rate of women compare to that of men?

A. The labor force participation rates between the two groups is about the same.
B. Men participate less than women at all ages.
C. Women participate less than men at all ages.
D. Women participate less than men when young (20-34 years-old) but at the same rate as men in later years (35-54 years-old).
E. Men participate less than women when young (20-34 years-old) but at the same rate as women in later years (35-54 years-old).

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7. Which of the following best describes the historical pattern in the average number of hours worked per week in the United States when the large drop during the Great Depression is ignored?

A. Average hours decreased from 60 hours per week in 1900 to 40 hours per week in 1960, with average hours holding steady since 1960.

B. Average hours have been consistently between 35 and 40 hours from 1900 through 2010.

C. Average hours increased from 25 hours per week on average in 1900 to over 40 hours per week in 2010.

D. Average hours constantly fell from about 55 hours per week in 1900 to about 33 hours per week in 2010.

E. Average hours held constant at 50 hours per week from 1900 through 1960; since 1960 average hours have consistently fallen to just under 30 hours per week in 2010.

8. The single most important phenomenon in the U.S. labor market in the second half of the 20th century was

A. the drastic reduction in the labor force participation rate of males.
B. the drastic increase in the labor force participation rate of females.
C. the elimination of the glass ceiling.
D. the increase in the average number of hours worked each week.
E. the elimination of child poverty.

9. Which of the following is not a property of standard indifference curves in a leisure-consumption model?

A. Indifference curves tend to be downward sloping.
B. Higher indifference curves (to the northeast) indicate higher levels of utility.
C. Indifference curves tend to be convex to the origin.
D. There is an indifference curve passing through every leisure-consumption bundle.
E. Indifference curves intersect one another.

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10. An increase in non-labor income while holding the wage rate constant

A. rotates the budget line out along the consumption axis.
B. rotates the budget line out along the leisure axis.
C. rotates the budget line in along the leisure axis.
D. rotates the budget line in along the consumption axis.
E. shifts the budget line up (in the direction of the consumption axis) while maintaining the same slope.

11. All of the following represent an increase in non-labor income except for:

A. A decrease in the income tax rate.
B. Receiving higher dividends from a stock portfolio.
C. An increase in a spouse's wage.
D. Receiving an inheritance from a long-lost uncle who recently passed away.
E. Having one's property tax bill fall by $1,000.

12. What is the budget line for consumption (C) and leisure (L) if a person faces a constant wage of $10 per hour, there are 112 hours in the week to work, and she receives non-labor income of $220 per week?

A. $C = 1{,}340$

B. $C + 10L = 1{,}340$

C. $L = 10C + 220$

D. $C - 10L = 900$

E. $10C - L = 900$

13. When the tax rate on wages falls (so that the take-home wage or effective wage increases), the budget line

A. rotates out along the consumption axis.
B. shifts out, parallel to the old budget line.
C. rotates in along the leisure axis.
D. shifts in, parallel to the old budget line.
E. rotates out along the leisure axis.

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14. According to the substitution effect, in response to an increase in her wage a person will

A. reduce hours worked because she wants to substitute leisure for work.
B. reduce hours worked because she wants to substitute work for leisure.
C. increase hours worked because leisure has become relatively more expensive than consumption.
D. increase hours worked because leisure has become relatively less expensive than consumption.
E. increase both consumption and hours of leisure.

15. According to the income effect, an increase in the wage rate will lead the worker to

A. work more hours if leisure is a normal good.
B. work fewer hours if leisure is a normal good.
C. work fewer hours if leisure is an inferior good.
D. work more hours and leisure more hours.
E. not change hours worked.

16. Assuming consumption and leisure are normal goods, hours worked will fall when the wage increases if

A. the income effect dominates the substitution effect.
B. the substitution effect dominates the income effect.
C. the income and substitution effect move in the same direction (i.e., if they are of the same sign).
D. the income and substitution effect move in the opposite direction (i.e., if they are of the opposite sign).
E. the wage increase is accompanied by an increase in prices.

17. What would a person do if the market wage is less than his or her reservation wage?

A. The person will enter the labor market.
B. The person will work as much as possible.
C. The person will work more hours as the wage falls further.
D. The person will be unemployed.
E. The person will not participate in the labor force.

18. The reservation wage likely increases when

A. the price of consumption increases.
B. the wage increases.
C. the price level (of consumption and wages) increases.
D. non-labor income increases.
E. one is a discouraged worker.

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19. The consensus estimate of the elasticity of labor supply among females is –0.1. The interpretation of this estimate is what?

A. On average, women will increase hours of work by 10% when their wage increases by 1%.

B. On average, women will increase hours of work by 1% when their wage increases by 10%.

C. On average, women will reduce hours of work by 5% when their wage increases by 10%.

D. On average, women will reduce hours of work by 10% when their wage increases by 1%.

E. On average, women will reduce hours of work by 1% when their wage increases by 10%.

20. When the wage was $10 per hour, a group of workers supplied 30 hours of work per week on average. The wage then increased to $12 per hour, and the same group of workers supplied 33 hours of work per week on average. What is the elasticity of labor supply for this group of workers?

A. 0
B. 0.5
C. 1.0
D. 1.5
E. 2.0

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21. Roughly what was the female labor force participation in the United States in 2010?

A. 33%

B. 50%

C. 60%

D. 70%

E. 85%

22. Prior to an expanded child care subsidy program in Illinois, the labor force participation rate of single mothers in Illinois was 45% and in Wisconsin was 48%. After Illinois expanded its child care subsidy program, the participation rate increased to 58% in Illinois and to 51% in Wisconsin. The expanded child care program in Illinois is estimated to increase labor force participation of single mothers by how much according to a difference-in-differences estimator?

A. 3%
B. 6%
C. 7%
D. 10%
E. 13%

23. The Earned Income Tax Credit is a federal program that

A. increases the wages of minorities.
B. provides cash assistance to the non-working poor.
C. provides cash assistance to firms that hire single mothers living in poverty.
D. increases wages for the working poor.
E. provides in-kind assistance to minimum wage workers.

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24. What is the added worker effect?

A. A secondary worker enters the labor force when the wage rate is high.
B. A secondary worker enters the labor force when his or her consumption of goods exceeds his or her non-labor income.
C. A secondary worker enters the labor force when his or her household productivity decreases.
D. A secondary worker enters the labor force when he or she no longer must allocate time to household production.
E. A secondary worker enters the labor force when the main worker in the household has lost his or her job or has experienced a wage cut.

25. Due to the added worker effect, the labor force participation rate

A. increases during a recession.
B. decreases during a recession.
C. a fairly useless statistic.
D. over-counts the number of workers wanting a job.
E. over-counts the number of workers with a job.

26. What is the discouraged worker effect?

A. A discouraged worker will accept any job offer regardless of the wage.

B. Because a discouraged worker accepts a part-time job when he wants a full-time job, he is considered to still be unemployed.

C. A discouraged worker accepts a part-time job, and is therefore counted as being employed.

D. A discouraged worker stops looking for a job, but is still counted as being in the labor force.

E. A discouraged worker stops looking for a job, and therefore is no longer counted as being in the labor force.

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27. Why might it be wrong to include self-proclaimed discouraged workers in calculations of the unemployment rate?

A. Discouraged workers likely have a job but are discouraged only because they would like a better-paying job.
B. Some discouraged workers are taking advantage of a low-wage period to consume large amounts of leisure.
C. Discouraged workers receive federal assistance.
D. Discouraged workers are already included in official unemployment statistics as long as no one else in their household is working.
E. By definition, discouraged workers are only temporarily laid-off, and they will return to a job shortly.

28. Due to the discouraged worker effect, the labor force participation rate

A. increases during a recession.
B. decreases during a recession.
C. is counter-cyclical.
D. over-counts the number of workers wanting a job.
E. over-counts the number of workers with a job.

29. The intertemporal substitution hypothesis suggests that hours of work should

A. be greatest during peak wage years.
B. steadily increase with age.
C. steadily decrease with age.
D. be greater for women than for men.
E. increase during retirement.

30. Which one of the following conclusions is not supported by the intertemporal substitution hypothesis?

A. The profile of hours of work over the life cycle will have roughly the same shape as the age-earnings profile.
B. Hours of work over the life cycle will be inversely related to wages over the life cycle.
C. Hours of work increase as the wage rises and decline as the wage falls.
D. An unemployed person might choose to become a discouraged worker during a low-wage recession with an eye toward returning to the labor market when wages increase.
E. A high wage worker may choose to work 60+ hours a week during her peak wage years in order to retire at a younger age later in life.

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Chapter 02 Labor Supply Answer Key

Multiple Choice Questions

1. Who is not counted in the U.S. labor force?

A. A person working 15 hours a week or more not for pay.
B. A fulltime college student.
C. A person working at least one hour for pay per week.
D. Someone actively looking for a job.
E. A 70-year-old person who supplements his social security payments by working 8 hours each week at minimum wage.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Measuring the Labor Force

2. Of the 500,000 people (age 16+) in a particular country, 300,000 people are in the labor force. Of these, 240,000 are employed and 60,000 are unemployed. What is the labor force participation rate?

A. 25%
B. 48%
C. 55%
D. 60%
E. 80%

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Measuring the Labor Force

3. Of the 500,000 people (age 16+) in a particular country, 300,000 people are in the labor force. Of these, 240,000 are employed and 60,000 are unemployed. What is the unemployment rate?

A. 10%
B. 20%
C. 25%
D. 35%
E. 40%

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Measuring the Labor Force

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4.

Of the 500,000 people (age 16+) in a particular country, 300,000 people are in the labor force. Of these, 240,000 are employed and 60,000 are unemployed. Of the 200,000 workers not in the labor force, 20,000 want jobs but have given up looking for one. What is the unemployment rate if discouraged workers (i.e., the hidden unemployed) are counted as being unemployed?

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C. 25%
D. 48%
E. 60%

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Measuring the Labor Force

5. How does the presence of an underground labor market bias the government's calculation of the labor force participation rate?

A. The official government statistic on labor force participation is too low, because people working in the underground labor market should be counted as participating in the labor market.
B. The official government statistic on labor force participation is too high, because people working in the underground labor market should be counted as participating in the labor market.
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E. The official government statistic on labor force participation is identical to actual labor market participation whether or not there is an underground labor market.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard
Topic: Measuring the Labor Force

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6. How does the labor force participation rate of women compare to that of men?

A. The labor force participation rates between the two groups is about the same.
B. Men participate less than women at all ages.
C. Women participate less than men at all ages.
D. Women participate less than men when young (20-34 years-old) but at the same rate as men in later years (35-54 years-old).
E. Men participate less than women when young (20-34 years-old) but at the same rate as women in later years (35-54 years-old).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Basic Facts about Labor Supply

7. Which of the following best describes the historical pattern in the average number of hours worked per week in the United States when the large drop during the Great Depression is ignored?

A. Average hours decreased from 60 hours per week in 1900 to 40 hours per week in 1960, with average hours holding steady since 1960.

B. Average hours have been consistently between 35 and 40 hours from 1900 through 2010.

C. Average hours increased from 25 hours per week on average in 1900 to over 40 hours per week in 2010.

D. Average hours constantly fell from about 55 hours per week in 1900 to about 33 hours per week in 2010.

E. Average hours held constant at 50 hours per week from 1900 through 1960; since 1960 average hours have consistently fallen to just under 30 hours per week in 2010.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Basic Facts about Labor Supply

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8. The single most important phenomenon in the U.S. labor market in the second half of the 20th century was

A. the drastic reduction in the labor force participation rate of males.
B. the drastic increase in the labor force participation rate of females.
C. the elimination of the glass ceiling.
D. the increase in the average number of hours worked each week.
E. the elimination of child poverty.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Basic Facts about Labor Supply

9. Which of the following is not a property of standard indifference curves in a leisure-consumption model?

A. Indifference curves tend to be downward sloping.
B. Higher indifference curves (to the northeast) indicate higher levels of utility.
C. Indifference curves tend to be convex to the origin.
D. There is an indifference curve passing through every leisure-consumption bundle.
E. Indifference curves intersect one another.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: The Worker's Preferences

10. An increase in non-labor income while holding the wage rate constant

A. rotates the budget line out along the consumption axis.
B. rotates the budget line out along the leisure axis.
C. rotates the budget line in along the leisure axis.
D. rotates the budget line in along the consumption axis.
E. shifts the budget line up (in the direction of the consumption axis) while maintaining the same slope.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: The Budget Constraint

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11. All of the following represent an increase in non-labor income except for:

A. A decrease in the income tax rate.
B. Receiving higher dividends from a stock portfolio.
C. An increase in a spouse's wage.
D. Receiving an inheritance from a long-lost uncle who recently passed away.
E. Having one's property tax bill fall by $1,000.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: The Budget Constraint

12. What is the budget line for consumption (C) and leisure (L) if a person faces a constant wage of $10 per hour, there are 112 hours in the week to work, and she receives non-labor income of $220 per week?

A. $C = 1{,}340$

B. $C + 10L = 1{,}340$

C. $L = 10C + 220$
D. $C - 10L = 900$

E. $10C - L = 900$

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: The Budget Constraint

13. When the tax rate on wages falls (so that the take-home wage or effective wage increases), the budget line

A. rotates out along the consumption axis.
B. shifts out, parallel to the old budget line.
C. rotates in along the leisure axis.
D. shifts in, parallel to the old budget line.
E. rotates out along the leisure axis.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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Blooms: Understand
Difficulty: 02 Medium
Topic: The Budget Constraint

14. According to the substitution effect, in response to an increase in her wage a person will

A. reduce hours worked because she wants to substitute leisure for work.
B. reduce hours worked because she wants to substitute work for leisure.
C. increase hours worked because leisure has become relatively more expensive than consumption.
D. increase hours worked because leisure has become relatively less expensive than consumption.
E. increase both consumption and hours of leisure.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: The Hours of Work Decision

15. According to the income effect, an increase in the wage rate will lead the worker to

A. work more hours if leisure is a normal good.
B. work fewer hours if leisure is a normal good.
C. work fewer hours if leisure is an inferior good.
D. work more hours and leisure more hours.
E. not change hours worked.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: The Hours of Work Decision

16. Assuming consumption and leisure are normal goods, hours worked will fall when the wage increases if

A. the income effect dominates the substitution effect.
B. the substitution effect dominates the income effect.
C. the income and substitution effect move in the same direction (i.e., if they are of the same sign).
D. the income and substitution effect move in the opposite direction (i.e., if they are of the opposite sign).
E. the wage increase is accompanied by an increase in prices.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: The Hours of Work Decision

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17. What would a person do if the market wage is less than his or her reservation wage?

A. The person will enter the labor market.
B. The person will work as much as possible.
C. The person will work more hours as the wage falls further.
D. The person will be unemployed.
E. The person will not participate in the labor force.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: To Work or Not to Work?

18. The reservation wage likely increases when

A. the price of consumption increases.
B. the wage increases.
C. the price level (of consumption and wages) increases.
D. non-labor income increases.
E. one is a discouraged worker.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard
Topic: To Work or Not to Work?

19. The consensus estimate of the elasticity of labor supply among females is –0.1. The interpretation of this estimate is what?

A. On average, women will increase hours of work by 10% when their wage increases by 1%.

B. On average, women will increase hours of work by 1% when their wage increases by 10%.

C. On average, women will reduce hours of work by 5% when their wage increases by 10%.

D. On average, women will reduce hours of work by 10% when their wage increases by 1%.

E. On average, women will reduce hours of work by 1% when their wage increases by 10%.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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Blooms: Understand
Difficulty: 02 Medium
Topic: Estimates of the Labor Supply Elasticity

20. When the wage was $10 per hour, a group of workers supplied 30 hours of work per week on average. The wage then increased to $12 per hour, and the same group of workers supplied 33 hours of work per week on average. What is the elasticity of labor supply for this group of workers?

A. 0
B. 0.5
C. 1.0
D. 1.5
E. 2.0

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
Topic: Estimates of the Labor Supply Elasticity

21. Roughly what was the female labor force participation in the United States in 2010?

A. 33%

B. 50%

C. 60%

D. 70%

E. 85%

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Labor Supply of Women

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22. Prior to an expanded child care subsidy program in Illinois, the labor force participation rate of single mothers in Illinois was 45% and in Wisconsin was 48%. After Illinois expanded its child care subsidy program, the participation rate increased to 58% in Illinois and to 51% in Wisconsin. The expanded child care program in Illinois is estimated to increase labor force participation of single mothers by how much according to a difference-in-differences estimator?

A. 3%
B. 6%
C. 7%
D. 10%
E. 13%

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 03 Hard
Topic: Welfare Programs and Work Incentives

23. The Earned Income Tax Credit is a federal program that

A. increases the wages of minorities.
B. provides cash assistance to the non-working poor.
C. provides cash assistance to firms that hire single mothers living in poverty.
D. increases wages for the working poor.
E. provides in-kind assistance to minimum wage workers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: The Earned Income Tax Credit

24. What is the added worker effect?

A. A secondary worker enters the labor force when the wage rate is high.
B. A secondary worker enters the labor force when his or her consumption of goods exceeds his or her non-labor income.
C. A secondary worker enters the labor force when his or her household productivity decreases.
D. A secondary worker enters the labor force when he or she no longer must allocate time to household production.
E. A secondary worker enters the labor force when the main worker in the household has lost his or her job or has experienced a wage cut.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Labor Supply over the Life Cycle

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25. Due to the added worker effect, the labor force participation rate

A. increases during a recession.
B. decreases during a recession.
C. a fairly useless statistic.
D. over-counts the number of workers wanting a job.
E. over-counts the number of workers with a job.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Labor Supply over the Life Cycle

26. What is the discouraged worker effect?

A.
A discouraged worker will accept any job offer regardless of the wage.

B.
Because a discouraged worker accepts a part-time job when he wants a full-time job, he is considered to still be unemployed.

C.
A discouraged worker accepts a part-time job, and is therefore counted as being employed.

D.
A discouraged worker stops looking for a job, but is still counted as being in the labor force.

E.
A discouraged worker stops looking for a job, and therefore is no longer counted as being in the labor force.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 01 Easy
Topic: Labor Supply over the Life Cycle

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27. Why might it be wrong to include self-proclaimed discouraged workers in calculations of the unemployment rate?

A. Discouraged workers likely have a job but are discouraged only because they would like a better-paying job.
B. Some discouraged workers are taking advantage of a low-wage period to consume large amounts of leisure.
C. Discouraged workers receive federal assistance.
D. Discouraged workers are already included in official unemployment statistics as long as no one else in their household is working.
E. By definition, discouraged workers are only temporarily laid-off, and they will return to a job shortly.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 02 Medium
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28. Due to the discouraged worker effect, the labor force participation rate

A. increases during a recession.
B. decreases during a recession.
C. is counter-cyclical.
D. over-counts the number of workers wanting a job.
E. over-counts the number of workers with a job.

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29. The intertemporal substitution hypothesis suggests that hours of work should

A. be greatest during peak wage years.
B. steadily increase with age.
C. steadily decrease with age.
D. be greater for women than for men.
E. increase during retirement.

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30. Which one of the following conclusions is not supported by the intertemporal substitution hypothesis?

A. The profile of hours of work over the life cycle will have roughly the same shape as the age-earnings profile.
B. Hours of work over the life cycle will be inversely related to wages over the life cycle.
C. Hours of work increase as the wage rises and decline as the wage falls.
D. An unemployed person might choose to become a discouraged worker during a low-wage recession with an eye toward returning to the labor market when wages increase.
E. A high wage worker may choose to work 60+ hours a week during her peak wage years in order to retire at a younger age later in life.

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