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Microeconomics for MBAs - Testbank

Chapter Two

Microeconomics: Principles of Rational Behavior in Society and Business

Part A: Theory and Public Policy Applications:

1. Which of the following is NOT a characteristic of rational behavior?

a) Individuals have alternatives.
b) Individuals order alternatives based on preference.
c) *Individuals imitate other people.
d) Individuals choose the alternative for which the expected benefits exceed the expected cost.

2. Rational behavior can be applied to

a) individuals.
b) politicians.
c) government officials.
d) *all of the above.

3. When individuals face viable alternatives,

a) there is choice.
b) there is always cost.
c) *a and b.
d) rational behavior is not possible.

4. Present value is

a) *the discounted value of future costs and benefits.
b) the inflated value of future costs and benefits.
c) the current value of future costs and benefits in the future.
d) the value of the current costs and benefits of what people consume today.
e) a and c

5. If the discount rate used to compute present values rises, the present value of future costs and benefits will

a) *increase.
b) decrease.
c) remain the same.
d) (Unknown; not enough information to say.)

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6. If the discount rate to compute present values rises, what can be expected to happen to the stock prices of firms that can reasonably expect a stream of profits into the future?

a) They will Increase.
b) *They will decrease.
c) They will remain the same.
d) (Unknown; not enough information to say.)

7. Consider two firms - one an upstart and one well established - that have the same current book profit. Which of the following statements is true?

a) The upstart may have a lower current market value than the established firm because it has to pay lower interest rates for borrowed funds and has lower expected profits.
b) *The established firm may have a greater current market value because it may face lower interest rates and have more predictable future profits.
c) Both a and b.
d) Neither a nor b.

8. The riskier future options or alternatives are,

a) the less rational people will necessarily be.
b) *the more future values must be discounted to obtain their present values.
c) the greater their present values.
d) the greater their net values in the future.

9. Marginal values of goods and services

a) deal with the value of total consumption.
b) *deal with value of increases or decreases in consumption.
c) never change.
d) are not calculable

10. Institutions

a) *affect costs and benefits.
b) never change.
c) cannot help explain choice among alternatives.
d) are only created by government.

11. Relative prices are

a) irrelevant to rational choice.
b) * one money price divided by another.

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c) all money prices divided by themselves.
d) b and c.

12. Opportunity cost

a) never exists if there are alternatives.
b) is irrelevant to rational choice.
c) *is the value of the next best alternative foregone in making a choice.
d) never applies to government or public policy.

13. A rational person will

a) never make mistakes in choices.
b) *choose alternatives for which the expected present value is greater than the expected value of the costs.
c) follow the Maslow Hierarchy of wants.
d) always choose those options, the future value of which is greater than the current costs.

14. Opportunistic behavior

a) is not rational.
b) is never observed.
c) *is rational.
d) cannot be prevented by management.

15. Firms with declining profits

a) lay the foundation for irrational behavior.
b) do not have opportunity costs.
c) *may create the last-period problem and opportunistic behavior.
d) should always fully fund.

16. Assume that studying economics and French are your only two activities. If you become more efficient in learning economics but your efficiency in learning French remains constant, then your ability to learn more economics

a) *increases.
b) decreases.
c) remains the same.
d) Don't know (not enough information to say.)

17. Assume that studying economics and French are your only two activities. If you become more efficient in learning economics but your efficiency in learning French remains constant, then your ability to learn more French

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a) *increases.
b) decreases.
c) remains the same.
d) Don't know (not enough information to say).

18. Assume that studying economics and French are your only two activities. If you become more efficient in learning economics but your efficiency in learning French remains constant, then you can

a) increase your achievement in economics while holding your achievement in French constant.
b) increase both your achievement in economics and French.
c) increase your achievement in French while reducing your achievement in economics.
d) *All of the above.

19. Assume that studying economics and French are your only two activities. If you become more efficient in learning economics but your efficiency in learning French remains constant, then the opportunity cost of your learning an additional unit of French (measured by the units of economics not learned) will

a) *increase.
b) decrease.
c) remain the same.
d) don't know (not enough information to say).

20. Rational behavior does NOT mean that people are

a) *totally self-centered.
b) able to define their wants.
c) able to order their wants.
d) able to consistently choose among their ordered wants.

21. From evolutionary theory, we can deduce that

a) People who cooperate reduce their survival chances.
b) People will innately also look out for themselves.
c) People have no reason to develop a moral sense.
d) *People who cooperate spread their genes more widely than those who done cooperate.
e) Self-interest will always override their interests in promoting the goals of the community.

22. Criminologist James Q. Wilson argues that

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a) People who develop a moral sense will have a survival advantage over strictly self-interested people.
b) People who develop a moral sense will lower their group productivity.
c) People who develop a moral sense will increase their group productivity.
d) a) and b)
e) *a) and c)

23. Which of the following statements is not true about rational behavior (as conceived by economists)?

a) People know within bounds what they want.
b) *People will never make mistakes in their purchases.
c) People are capable of ordering their wants.
d) People are able to choose consistently given their ordering of wants.

24. Economists rely on the premise of rational behavior because

a) they know people are as rational as assumed.
b) they seek to abstract from the complexity of human motivation.
c) they seek to develop testable hypotheses.
d) *both a and b.
e) all of the above.

25. Assume you are taking two (and only two) courses, economics and organizational behavior. Assume also that you have a limited amount of time to devote to studying the two courses and that you allocate your time so as to maximize your achievement level (within the boundaries of your evaluation of achievement, the ease with which you can learn the material, and the professors' teaching skills). Now assume that the econ professor does something to improve the efficiency of learning in economics, while the OB professor holds to old methods. Given the change, the cost of increasing your achievement in economics (as measured by the achievement in OB given us) can be expected to

a) increase.
b) *decrease.
c) remain the same.
d) (Unknown; not enough information to say.)

26. Assume you are taking two (and only two) courses, economics and organizational behavior. Assume also that you have a limited amount of time to devote to studying the two courses and that you allocate your time so as to maximize your achievement level (within the boundaries of your evaluation of achievement, the ease with which you can learn the material, and the professors' teaching skills). Now assume that the econ professor does something to improve the efficiency of learning in economics, while the OB professor holds to old methods. Given the change, you can

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a) increase your achievement in economics.
b) increase your achievement in organizational behavior.
c) increase your achievement in both courses.
d) *all of the above.

27. In economics, the *cost* of doing something is

a) *the value of the next best opportunity not taken.
b) the opportunity cost only.
c) the money, out-of-pocket expenditure.
d) all of the above.

28 A rational person will consume a good until

a) *the marginal cost of the last unit consumed equals its marginal value.
b) the marginal value of the last unit consumed is greater than its marginal cost.
c) the total value of all units consumed equals the total cost of all units consumed.
d) the total cost of all units consumed is greater than the total value of all units consumed.

29. A rational student will continue studying in a given study session until

a) the total value of the studying equals the total opportunity cost.
b) *the marginal value of the last unit studied equals the marginal cost of the last unit.
c) the expected grade is an A.
d) the expected grade is a B.
e) the expected grade is passing.

30 If the opportunity cost of studying goes down (all other relevant factors remaining constant), then the rational student will

a) *increase study time.
b) decrease study time.
c) hold study time the same.
d) (Unknown; not enough information to say.)

31. If the benefits of a given choice option are delayed further into the future, (all other relevant factors remaining constant), then a rational person will

a) *consume less of the option.
b) consume more of the option.
c) consume the same amount.

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d) (can't determine; timing of the benefits is hard to predict.)

32. If a choice option becomes riskier (all other relevant factors remaining constant), the a rational person will consume

a) more of the option..
b) *less of the option.
c) the same amount.
d) (can't determine; the effects of greater risk are hard to predict.)

33. If the benefits of a given choice option are delayed further into the future (all other relevant factors remaining constant), then the present value of the option will

a) increase.
b) *decrease.
c) remain the same.
d) (Unknown; not enough information to say.)

34. If a choice option becomes less risky (all other relevant factors remaining constant), then its discounted value will

a) *increase.
b) decrease.
c) remain the same.
d) (Unknown; not enough information to say.)

35. People with poor credit records pay higher than average interest rates on home mortgages because

a) lenders can take advantage of them.
b) *lenders incur greater costs in collecting payments.
c) lenders are prejudiced.
d) lenders can make more profit off of people with poor credit records.

36. As their down payments on homes goes down, prospective homeowners can expect to pay

a) *higher interest rates.
b) lower interest rates.
c) the same interest rates (because interest rates are a function only of borrowers' credit records).
d) (Unknown; not enough information to say.)

37. As down payments on home mortgages go down, lenders can expect the riskiness of the mortgages to

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a) *increase.
b) decrease.
c) remain the same.
d) (Unknown; not enough information to say.)

38. As the term of the mortgage increases from 15 to 30 years, mortgage borrowers can expect their interest rates to

a) *rise because of the greater risk lenders incur.
b) decrease because of economies of lenders holding longer term mortgages.
c) remain the same because the mortgage term has no affect on the profitability of mortgages.
d) rise because people who want longer term mortgages do not care as much about the interest rates they pay.

39. Which of the following statements would an economist agree is *descriptively* true of people's behavior?

a) People are totally self-centered, doing only things that are of direct personal benefit.
b) People's behavior is subject to psychological quirks, hang-ups, habits and impulses.
c) People do many things that do not work out to their benefit.
d) People do not always pursue their narrow self interest; they often have the interests of others at stake.
e) *All of the above.

40. Rational behavior implies that

a) A person recognizes the real cost of acquiring or doing something.
b) A person will choose among preferences so as to maximize his or her satisfaction.
c) A person can rank preferences.
d) A person has preferences and can identify them.
e) *All of the above statements are correct.

41. Rational behavior meant that

a) People act consistently in choosing what is most preferred.
b) People are aware of alternatives.
c) People can rank preferences.
d) People choose those alternatives whose expected benefits exceed their expected costs.
e) *All of the above statements are true.

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42. A synonym for “utility” is

a) Pain.
b) Electricity.
c) *Satisfaction.
d) Energy.
e) None of the above.

43. Rational behavior is best defined economically as behavior that

a) Is nonviolent.
b) Is legal.
c) Conforms with societal standards.
d) *Maximizes an individual’s satisfaction.
e) Does all of the above.

44. What is considered “rational” by one person may not be “rational” to another person because

a) Of ethical considerations that give rise to different value judgments.
b) People have different preferences.
c) Of the effects on the decision rendered by considering the future.
d) Some people may have access to more information than others.
e) *All of the above.

45. “There is no such thing as a free lunch” means that

a) Money costs are always present when one acquires or does something.
b) You always have to pay the tab.
c) You have no choices.
d) *Choices are present and a real cost is incurred when a choice is made.
e) None of the above is true.

46. Rational behavior means that
a) The individual may not always do what most satisfies him or her.
b) There is no cost involved in making choices.
c) The individual is free to do as he or she wishes.
d) There are no constraints to choices.
e) *The individual can choose from among various alternatives the one that most satisfies his or her wants.

47. Cost-benefit analysis
a) Is the calculation of all benefits, present and future.
b) Compares the benefits to the costs of some choice.

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c) Is the calculation of all costs, present and future.
d) Is undertaken by rational individuals whether they are conscious of it or not.
e) *Is all of the above.

48. Which of the following statements about cost-benefit analysis is true?

a) Costs are more carefully analyzed than benefits.
b) Benefits are more carefully analyzed than costs.
c) *After all costs and benefits have been analyzed, only those alternatives with the highest benefit-to-cost ratios will be taken.
d) After all costs and benefits have been analyzed, if the benefits outweigh the costs of some alternative, it will always be taken.
e) After all costs and benefits have been analyzed, only those alternatives with the highest cost-to-benefit ratios will be taken.

49. What is considered "rational" behavior by one person may not be considered "rational" by another person because

a) Of different institutional settings or constrains.
b) People have different preferences.
c) Of different choices available to different people.
d) People have different value systems.
e) *Of all of the above.

50. The real cost of acquiring or doing something is

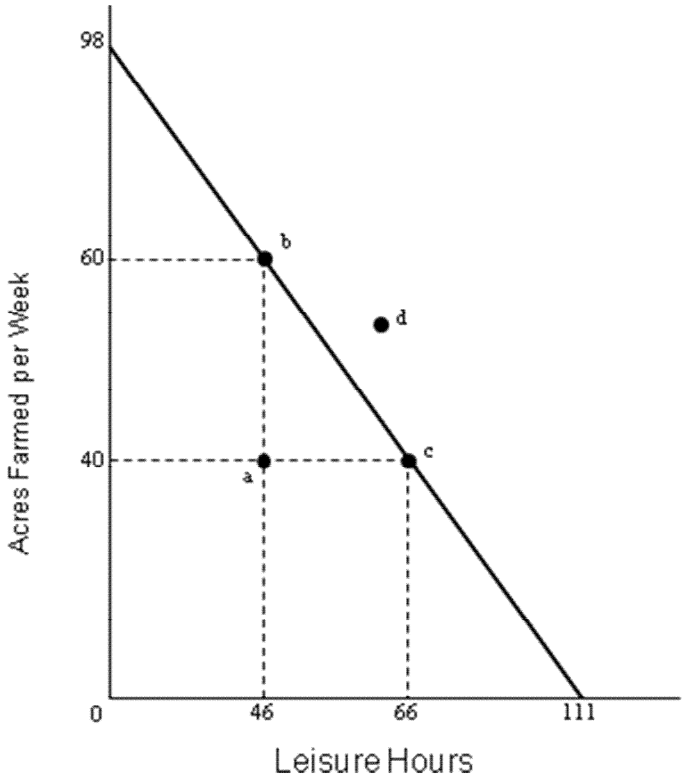
a) Anything that must be given up.
b) Always stated in terms of dollars.
c) The time it takes.
d) *The highest preferred alternative that must be forgone.
e) All of the above.

51. Whenever a rational individual chooses among alternatives, this means that

a) The individual will choose those alternatives whose benefit-to-cost ratios are the greatest.
b) He or she will choose those alternatives whose benefits are greatest.
c) *He or she may not recognize the difference between money cost and real cost.
d) He or she will choose those alternatives whose costs are lowest.
e) The individual will choose those alternatives whose cost-to-benefit ratios are the greatest.

Use this figure to answer the next three questions.

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52. Which of the following statements is true?

a) Point d would maximize the person's satisfaction given his or her constraints.
b) If this person behaves rationally and prefers more work, this may be represented by a movement from point a to point b.
c) *This figure shows the constrained choice between work and leisure.
d) Point a is unobtainable, given the constraints.
e) If this person behaves rationally and prefers more leisure, this may be represented by movement from point c to point b.

53. Which of the following statements is correct?

a) Point d may be obtainable if the farmer receives new and more efficient equipment.
b) Point a would not be chosen if the person behaves rationally.
c) Point d is unobtainable, given the constraints of this farmer.
d) Given the constraints and preferences of this farmer, point b and c are rational choices.
e) *All of the above statements are correct.

54. Which of the following statements is correct?

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a) *If 40 acres is currently farmed per week and the farmer is rational and decides to farm 20 more acres, the cost is 20 hours of leisure.
b) Point a is a rational choice because the farmer could have 46 hours of leisure for only 40 acres farmed per week, as opposed to 60 acres per week.
c) Movement from point b to point c represents a real cost of 20 leisure hours.
d) If 40 acres is currently farmed per week and the farmer is rational and decides to farm 20 more acres, the cost is zero hours of leisure.
e) A movement from point a to point d over time would be irrational.

55. Present value helps individuals make rational choices by considering the

a) Future period over which costs but not benefits will be incurred.
b) *Future period over which costs and benefits will be incurred.
c) Past costs that have been incurred.
d) Past benefits that have been incurred.
e) Future period over which benefits but not costs will be incurred.

56. Present value is used to

a) Put today's benefits in terms of tomorrow's benefits.
b) Put today's costs in terms of yesterday's costs.
c) Compare present benefits with present costs.
d) *Adjust future costs and benefits so they can be compared with costs and benefits realized today.
e) Do all of the above.

57. Which of the following statements is <u>true</u>?

a) Present value eliminates all risks associated with a future stream of costs and benefits.
b) Benefits are defined as those incurred more or less immediately.
c) Costs are defined as those incurred more or less immediately.
d) If present costs outweigh present benefits, then future costs must outweigh future benefits.
e) *To make rational choices, people must consider the period over which costs and benefits are incurred.

58. Which of the following statements is <u>false</u>?

a) All benefits are not necessarily incurred immediately.
b) All costs are not necessarily incurred immediately.
c) If there is any uncertainty about whether future benefits or costs will actually be received or have to be paid, further adjustments must be made.

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d) *To make rational choices people need only consider present costs and benefits.
e) Some decisions which would otherwise not be undertaken may appear to be quite rational after future costs and benefits are considered.

59. Present value is the value of

a) *Future costs or benefits in terms of current dollars.
b) Current costs and benefits in terms of current dollars.
c) Current costs or benefits in terms of future dollars.
d) Future costs and benefits in terms of future dollars.
e) Past costs or benefits in terms of current dollars.

60. Which of the following statements is true about present value?

a) When calculating the present value of benefits to be received in the future one must discount those future benefits, whereas future costs are not discounted but simply added to present costs.
b) The farther into the future a particular cost is to be incurred, the greater its present value.
c) Rational people would always prefer a future stream of income over a lump-sum payment because the interest-income from receiving income in the future is always positive.
d) *The farther into the future a particular income payment is to be received, the lower its present value.
e) None of the above.

61. Suppose an individual is solely interested in maximizing his income and could earn $20,000 per year in a legitimate line of employment. However, if the individual were to become a professional thief he could earn $2,500 an average for every heist. Assume the probability of getting caught and spending one year in jail is 20 percent. Which of the following statements is true about the rationality of this person becoming a thief?

a) *He should not become a thief because the actual cost of each crime if caught is $4,000 and the
income benefit is only $2,500.
b) He should become a thief because the income benefit of each crime is $2,500 and the actual cost is only $400.
c) He should not become a thief because it is not rational to break the law.
d) He should become a thief because the probability of getting caught and spending a year in jail is so low.
e) He should not become a thief because the actual cost of being caught is $20,000 for a one year jail sentence and the income benefit is only $2,500.

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Part B: Organizational Economics and Management:
The Logic of Group Behavior in Business and Elsewhere

62. A public good

a) provides benefits to all members of the relevant group, if it is provided at all.
b) stands in contrast to a private good, which benefits only the purchaser.
c) is any good provided by government.
d) *a and b.
e) all of the above.

63. The prisoner's dilemma

a) is a game model under which players have an incentive for taking the non-cooperative strategy.
b) can explain proprietorship formation.
c) can explain employee shirking.
d) *a and c.
e) all of the above..

64. A public good is

a) * a good that, if produced, provides benefits to two people or even a community of people without payment by anyone.
b) a private good provided by the government.
c) a good for which a use payment can be easily extracted from users.
d) a good of which can be exhausted by more individuals using it.

65. A good example of a public good is a

a) lollypop.
b) *beautification program for Central Park in New York City.
c) textbook that is used to increase people's knowledge of economics.
d) hamburger.

66. A good example of a private good is a

a) *candy bar.
b) fireworks display on the shore of the Hudson River on July 4.
c) mosquito abatement program in a city.
d) vaccines program for smallpox in Africa.

67. Free-rider behavior

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a) is a type of shirking.
b) does not occur in small groups.
c) is less likely in small groups than large groups.
d) *a and c.

68. The common interest theory of group behavior assumes that people are

a) motivated to do things because of their private interests
b) *motivated by their shared values
c) motivated to do things because community enforcement of shared values
d) motivated by the size of the group

69. The economic theory of groups

a) is based on rational economic persons.
b) looks at group membership as motivated by a common interest.
c) looks at group membership as a matter of costs versus benefits.
d) *a and c.

70. The economic theory of groups predicts that small groups are likely to be more prevalent and successful in achieving their goals than large groups because

a) large groups will have members with diverse interests.
b) large groups are hard for leaders to direct and control.
c) the free rider problem is less likely to occur in small groups than in large groups .
d) *all of the above.

71. In her study of successful nineteenth-century utopian communities, Rosebeth Kanter found six “commitment mechanisms” distinguished the successful from the unsuccessful utopias. Which of the following is NOT one of the commitment mechanisms?

a) Sacrifice of habits common to the outside world, such as the use of alcohol and tobacco or, in some cases, sex
b) Assignment of all worldly goods to the community
c) *Adoption of rules that would maximize the disruptive effects of relationships between members and nonmembers
d) Collective sharing of all property and all communal work
e) Submission to public confession and criticism

72. Governments serve large groups of people on whom they impose taxes rather than ask for voluntary contributions to finance public goods. Governments use forced taxation because

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a) public goods are not uniformly valued by all individuals.
b) public goods are mostly services.
c) *large free rider problems are anticipated with voluntary contributions.
d) government contributions require taxes.

73. Under the economic theory of group behavior, in motivating people to action common interests

a) are likely to be most effective in large groups.
b) are more effective in large groups as the members preferences are more diverse.
c) *are likely to be more effective in small groups.
d) negate the economic theory of group behavior.

74. Which of the following is NOT a public good?

a) A park.
b) National defense.
c) *A shirt.
d) Flood control.

75. Competitors in a highly competitive market have an interest in restricting their collective production in order to raise the market price. They don't restrict output because

a) *of the free-rider problem
b) they don't share a common interest in hiking the market price.
c) a reduction in their collective production, if achieved, will not raise the market price.
d) a reduction in output, if achieved, will not raise their individual profits.

76. When the water reserves in Southern California substantially dwindle (from time to time) because of a decrease in rainfall, state and local official often call on residents in the area to conserve water. Which of the following would you expect to happen in response to appeals for water conservation, if prices are not also raised?

a) Residents will solve the water shortage by curbing their consumption in various ways because they have a common interest in having adequate water supplies in the future.
b) Water reserves will continue to dwindle but only at a slightly lower rate, if at all.
c) People will consume more water as they begin to worry that water reserves will be depleted.
d) a and b.
e) *b and c.

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77. An economic purpose of leadership in a group is

a) expanding costs beyond benefits.
b) *finding a strategy for preventing free riding.
c) non-existent.
d) is all cost and no benefits.

78. Under the economic theory of groups, as the size of the group increases, free riding can be expected to

a) *increase.
b) decrease.
c) remain the same.
d) don't know (not enough information to say).

79. Under the economic theory of groups, as the size of the group increases, monitoring costs that must be incurred to achieve group objectives can be expected to

a) *increase.
b) decrease.
c) remain the same.
d) (Unknown; not enough information to say.)

80. Management's snooping on employees can improve firm profitability because it can

a) *reduce free riding.
b) increase free riding.
c) increase other forms of monitoring employees.
d) destroy employees' common interests.

81. Management's snooping on employees is a practice that

a) is never in the interest of employees.
b) is always in the interest of employees.
c) *can be in the interest of employees up to a point.
d) none of the above.

82. Management's snooping can cause worker wages to rise because it can

a) *increase overall worker productivity.
b) undercut worker morale.
c) be distasteful to workers causing a reduction in the number of workers wanting to work for the firm doing the snooping.

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d) a and c

83. Workers will have a legitimate (perhaps legal) beef with managers who commit to not snooping on employees in any way but who do snoop because

a) snooping is only a violation of trust that has no economic (or workplace) effect.
b) workers count on managers' commitment not to snoop and, as a consequence, accept lower wages than otherwise.
c) workers count on managers' commitment not to snoop and are only concerned with the issue of invasion of privacy that has no economic effect.
d) workers count on managers' commitment not to snoop and, as a consequence, accept lower fringe benefits than they otherwise would have.
e) *b and d

84. Management's snooping on workers when they are working offline and online can

a) cause worker irritation, which can push up worker wages.
b) overcome prisoner's dilemmas workers face at work and can cause an increase in worker on-the-job satisfaction and higher wages.
c) cause worker irritation, but workers can still be better off with the snooping because of their higher wages resulting from greater worker productivity.
d) a and c.
e) * all of the above.

85. In large group settings, market prices cause people to

a) reduce their tendency to free ride on the work of others.
b) conserve scarce resources.
c) reduce the potential for a tragedy of the commons.
d) allocate resources to their highest value uses.
e) *all of the above.

86. The economic theory of group behavior leads to the conclusion that

a) all people will be free riders in large group settings.
b) all small groups can work toward the achievement of common values in small groups.
c) *free riding will tend to increase as the group size goes up.
d) monitoring costs will fall with the size of groups.

87. Tough bosses provide benefits for

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a) owners only.
b) workers only.
c) *owners and workers.
d) neither workers nor owners.

88. Tough bosses can

a) increase the demand for labor because of the resulting greater worker productivity.
b) increase the supply of workers because of the resulting greater job security.
c) decrease the demand for workers and increase the supply of workers because of the effects of tough bosses on product prices.
d) *a and b .
e) none of the above.

89. In large workplaces, tough bosses can help overcome all but the following problems:

a) Free-rider problems
b) Shirking problems
c) Tragedy of the commons
d) *All of the above

90. Tough penalties for workplace shirking can be

a) in the interest of owners but not workers.
b) in the interest of workers but not owners.
c) *in the interest of workers and owners.
d) none of the above.

91. An inherent problem is having people be “tough bosses” is that of making sure “tough bosses” do not shirk their duty to be tough on the workers below them. In private firms, this problem is solved by

a) *having owners who are residual claimants.
b) having senior managers who are tough bosses.
c) paying workers to report bosses who are tough.
d) all of the above.

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Table 3.3 ***The Battle of the Sexes***

		Tom	
		Shakespeare in Love	*Saving Private Ryan*
Marsha	*Shakespeare in Love*	100 \ 75	60 \ 60
	Saving Private Ryan	–40 \ –40	75 \ 100

92. Consider the payoff matrix for the "Battle of the Sexes" game captured in the above Table 3.3 taken directly from the textbook. Marsha's best strategy in this game (as defined solely by the indicated payoffs) is to

a) ask Tom to go with her to see "Shakespeare in Love."
b) leave a message on Tom's answering machine that she will be going to see "Shakespeare in Love" at a given time and to take his returned calls.
c) *leave a message on Tom's answering machine that she will be going to see "Shakespeare in Love" at a given time and to not take his returned calls.
d) agree to go see "Saving Private Ryan."

93. *Residual claimant* is a concept that is relevant to the

a) social value of private property rights.
b) cost effective operations of firms.
c) suppression of free riding.
d) Social value of communal property.
e) *a, b and c.

94. The toughest bosses are likely to be

a) taxpayers.
b) government bureaucrats.
c) residual claimants.
d) sole entrepreneurs.
e) *c and d.

95. People who provide a firm's capital tend to own firms and hire workers because

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a) capital providers tend to be less risk averse, and be more accepting of the role of residual claimants, than labor providers
b) *capital providers have to fear that once they provide the capital, worker owners of firms would demand wages that drain the firm of its capital
c) capital providers can hire risk-averse workers at lower wage rates than workers can hire risk-taking capital owners
d) all of the above
e) none of the above

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