Labour Market Economics (Canadian) 9th edition Benjamin Test Bank

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Labour Market Economics 9ce Edition by Benjamin Ch02

1) Empirical literature on labour supply patterns for married women tends to find all of the following, except:

A) Labour market participation rate for married women was highest in the 35-44 age group.
B) Women with children have lower rates of labour force participation.
C) The higher the education level, the higher the labour force participation rate.
D) The strong negative relationship between the husband's income and the labour force participation rate for married women.
E) Participation rate for all married women is around 75 percent.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Topic : 02-15 Participation, Married Women
Bloom's : Remember

2) Which of the following statements concerning the elasticity of labour supply is true?

A) The total wage elasticity of supply tends to be positive and of low magnitude.
B) The income elasticity of supply tends to be positive and of low magnitude
C) The compensated elasticity of supply is close to zero
D) Overall workers tend to be highly responsive to wage changes
E) None of these above statements are true

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Topic : 02-17 Section Two: Extensions and Applications
Bloom's : Understand

3) Which of the following statements concerning the elasticity of labour supply is false?

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A) The overall labour supply for both sexes is likely to be backward bending.
B) It is generally higher for women than for men.
C) The compensated elasticity (reflecting the substitution effect) tends to be higher in magnitude than the uncompensated, gross elasticity.
D) The overall labour supply for both sexes is likely to be upward sloping
E) The elasticity of labour supply with respect to income is negative.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Topic : 02-17 Section Two: Extensions and Applications
Bloom's : Understand

4) Which of the following statements is false?

A) In periods of high unemployment, discouraged workers tend to withdraw from the labour force.
B) In periods of low unemployment, discouraged workers tend to re-enter the labour force.
C) Discouraged workers are part of the hidden unemployment phenomenon
D) Discouraged workers are considered to be marginally attached to the labour force
E) Discouraged workers behave in a similar fashion as added workers.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Topic : 02-19 Hidden Unemployment
Bloom's : Apply

5) Suppose a worker is observed to be working but is forced to work fewer hours than she really wants to work. Which of the following statements is true?

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A) The indifference curve that she is on is tangent to the budget line.
B) She is on an indifference curve which is lower than the one which is tangent to her budget line.
C) She is on an indifference curve which is higher than the one which is tangent to her budget line.
D) She is on an indifference curve which is lower than the one which passes through the point on the budget line corresponding to zero hours of work.
E) She is not on an indifference curve.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Analyze
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Topic : 02-09 The Consumer's Optimum
Difficulty : Hard

6) The slope of the indifference curve at the lower right-hand corner of the income/leisure diagram, where zero hours of work are supplied to the labour market, is equal to:

A) the prevailing market wage.
B) the reservation wage.
C) the level of non-market income.
D) the slope of the budget constraint.
E) the difference between the market wage and the reservation wage

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Bloom's : Remember
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Topic : 02-09 The Consumer's Optimum

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7) The reservation wage is defined as:

A) the wage of the reservation clerk in the tourism industry.
B) the maximum wage that an employer is willing to pay a worker for a given job.
C) the minimum wage that an employee is willing to accept for a given job.
D) the equilibrium wage.
E) the wage rate at which zero hours of labour is supplied by the workers.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Topic : 02-09 The Consumer's Optimum
Difficulty : Easy

8) All of the following patterns of labour market behaviour can be analyzed with the income-leisure framework, except:

A) moonlighting
B) overtime work
C) labour force participation
D) underemployment
E) worksharing

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Bloom's : Understand
Difficulty : Easy
Topic : 02-20 Moonlighting, Overtime, and Flexible Working Hours
Topic : 02-21 Moonlighting and Underemployment
Topic : 02-22 Overtime and Overemployment

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9) Consider the situation of a worker who is ‘at the corner equilibrium' i.e., he or she is supplying zero hours of work and consuming 16 hours of leisure. In context of the income-leisure framework, which of the following statements is false?

A) The indifference curve is steeper than the budget line.
B) The marginal rate of substitution between income and leisure is greater than the wage rate in absolute value terms.
C) The indifference curve is flatter than the budget line.
D) The rate at which the worker is willing to exchange income for leisure is not equal to the market rate for the exchange of income for leisure.
E) Marginally, the worker values an hour of leisure more than she values an hour's worth of income.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Analyze
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Topic : 02-09 The Consumer's Optimum
Difficulty : Hard

10) Which one of the following regarding to an individual's budget constraint is correct?

A) The slope of the budget constraint is determined by the market wage rate.
B) The level of non-labour income determines the intercept of the budget constraint.
C) The slope of the budget constraint is determined by the reservation wage rate
D) The slope of the budget constraint is equal to the marginal rate of substitution between income and leisure
E) The slope of the budget constraint is higher for a full-time worker than for a part-time worker.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Difficulty : Easy
Topic : 02-08 Constraints

11) In the neo-classical model of labour supply, which of the following is always true?

A) If leisure is a normal good, a wage increase causes an increase in hours worked.
B) If leisure is a normal good, a wage increase causes a decrease in hours worked.
C) The income effect and the substitution effect work in the same direction.
D) The substitution effect causes the worker to work more hours if wages increase.
E) None of these options

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Topic : 02-11 Hours of Work for Participants
Bloom's : Analyze
Difficulty : Medium

12) Over the backward bending portion of the labour supply curve,

A) The substitution effect of a wage change dominates the income effect.
B) Leisure becomes an inferior good.
C) The wage elasticity of labour demand is inelastic.
D) There is no longer a trade-off between income and leisure.
E) The wage elasticity of labour supply is negative.

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Bloom's : Analyze
Difficulty : Medium
Topic : 02-13 Deriving the Individual Supply Curve of Labour

13) For a worker who is deciding how many hours of labour to supply, all of the following are true except that:

A) The marginal rate of substitution between income and leisure is equal to the wage rate.
B) The rate at which she is willing to exchange leisure for income equals the rate at which the market allows her to do it.
C) The slope of the budget line equals the slope of the indifference curve.
D) The income effect of a wage change equals the substitution effect.
E) The worker cannot increase total utility by working more or fewer hours.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Topic : 02-11 Hours of Work for Participants
Bloom's : Analyze
Difficulty : Hard

14) Which of the following statements most closely applies to the labour force participation decision?

A) It consists of the choice to allocate a portion of one's time to labour market activities as opposed to non-market activities.
B) It occurs when one accepts an employment position and is working.
C) It occurs when one is actively seeking work.
D) It includes paid and unpaid work.
E) It doesn't include unemployed workers.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : Easy
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

15) The portion of the population that is surveyed as potential labour force participants consists of:

A) the civilian non-institutional population.
B) the unemployed plus the employed population.
C) the entire civilian population that is 15 years of age or older.
D) Individuals who do hold jobs
E) the entire population of Canada.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

16) Which of the following statements applies to the unemployed population?

A) They are either unable to work, or are on strike.
B) They are jobless.
C) They are jobless but are actively seeking work.
D) They are working fewer hours than they would like to.
E) They are working but are underpaid.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : Easy
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

17) Which of the following groups of workers are considered to be part of the labour force?

A) Full-time students
B) The hard-core unemployed
C) Discouraged workers
D) Members of the Canadian military
E) Homemakers

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : Easy
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

18) What is an approximate figure for the labour force participation rate in Canada?

A) 40%
B) 50%
C) 65%
D) 80%
E) It cannot be determined, as there are no reliable data available.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

19) When examining cross-national data on labour force participation rates, which of the following phenomena are apparent?

A) That higher income countries tend to have higher rates than do lower-income countries
B) That these rates for women tend to be higher than they are for men
C) That higher income countries tend to have lower rates
D) That men in higher income countries have much higher rates than men in lower-income countries
E) That women in higher income countries have much higher rates than women in lower-income countries

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

20) The expression for the unemployment rate (UR) is:

A) UR = (employed−unemployed)/unemployed
B) UR = (employed−unemployed)/labour force
C) UR = unemployed/labour force
D) UR = (unemployed/employed)
E) UR = (unemployed/population)

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Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Bloom's : Understand
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

21) Data on the distribution of the usual number of hours worked per week indicates that:

A) almost all workers work about 40 hours
B) there is greater variation among women than among men
C) most part-time workers work about 20 hours
D) men are more likely to work part time than women
E) None of these above

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 02-01 Define the key elements of labour force measurementemployment, unemploymen
Topic : 02-05 Quantifying Labour Market Attachment

22) The wage rate at which the individual worker is indifferent between participating and not participating in the labour force is called the:

A) indifference wage.
B) minimum wage.
C) reservation wage.
D) utility wage.
E) participating wage.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Topic : 02-09 The Consumer's Optimum
Difficulty : Easy

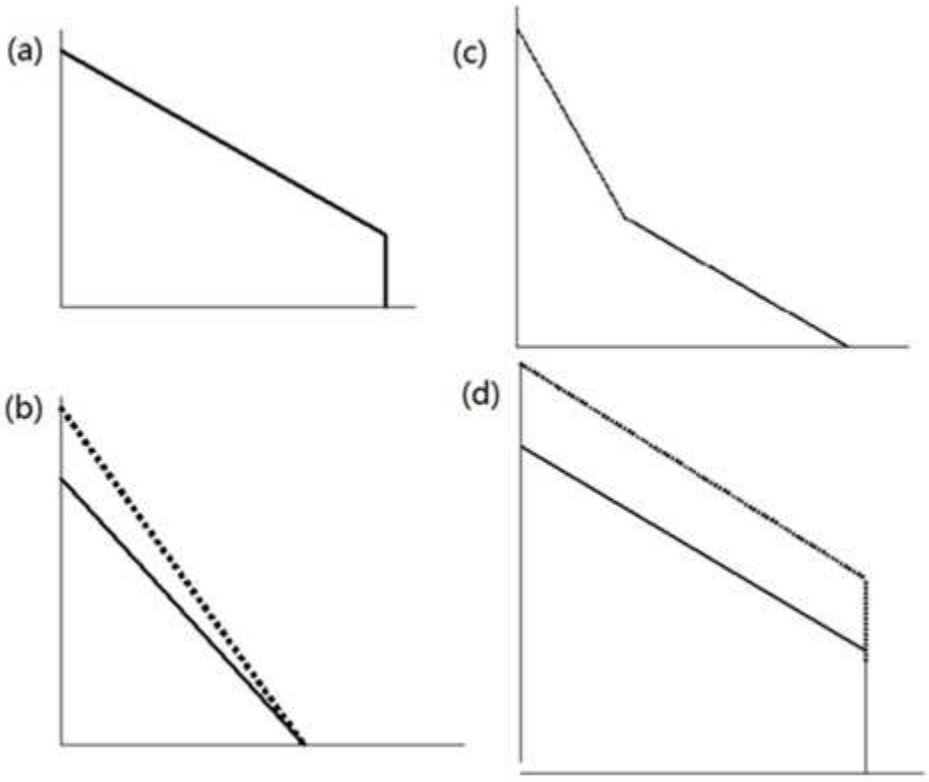
23) An increase in non-market income will have which of the following effects?

A) An upward shift in the income constraint
B) A downward shift in the income constraint
C) A clockwise rotation in the income constraint, making it steeper
D) A counter-clockwise rotation in the income constraint, making it flatter
E) There is no change to the income constraint.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Topic : 02-11 Hours of Work for Participants
Bloom's : Analyze
Difficulty : Medium

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24) Which of the following diagrams corresponds to a budget line that involves overtime hours with a wage premium?

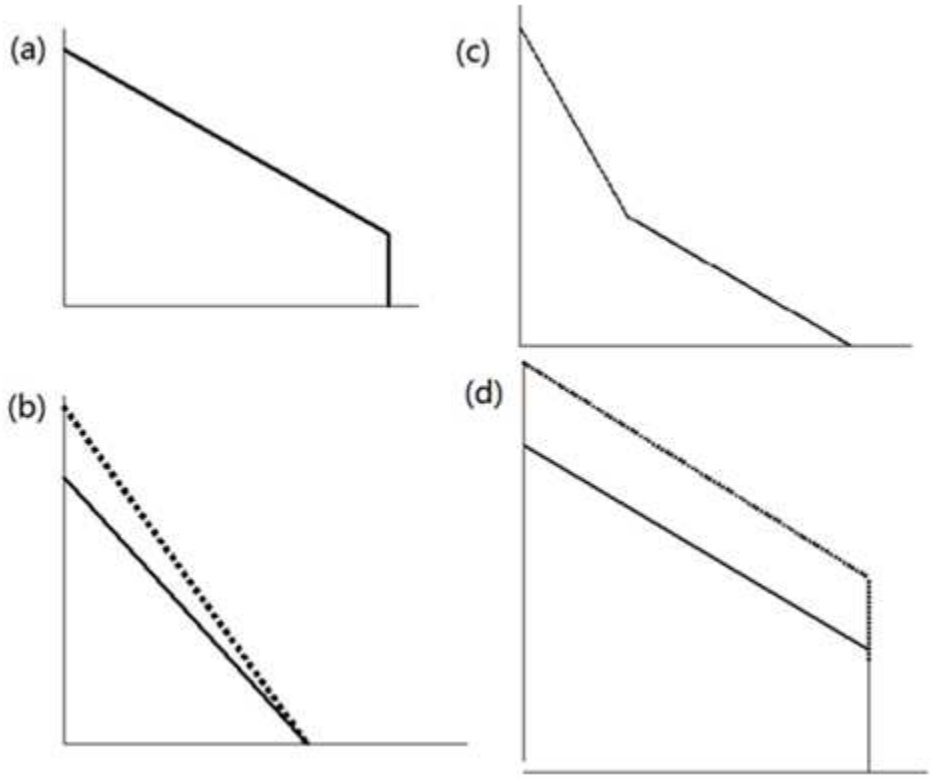


A) (a)
B) (b)
C) (c)
D) (d)
E) None of these above

Question Details
Bloom's : Analyze
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Topic : 02-23 Overtime Premium versus Straight-Time Equivalent

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25) Which of the diagrams given below corresponds to a budget constraint with some non-labour income?

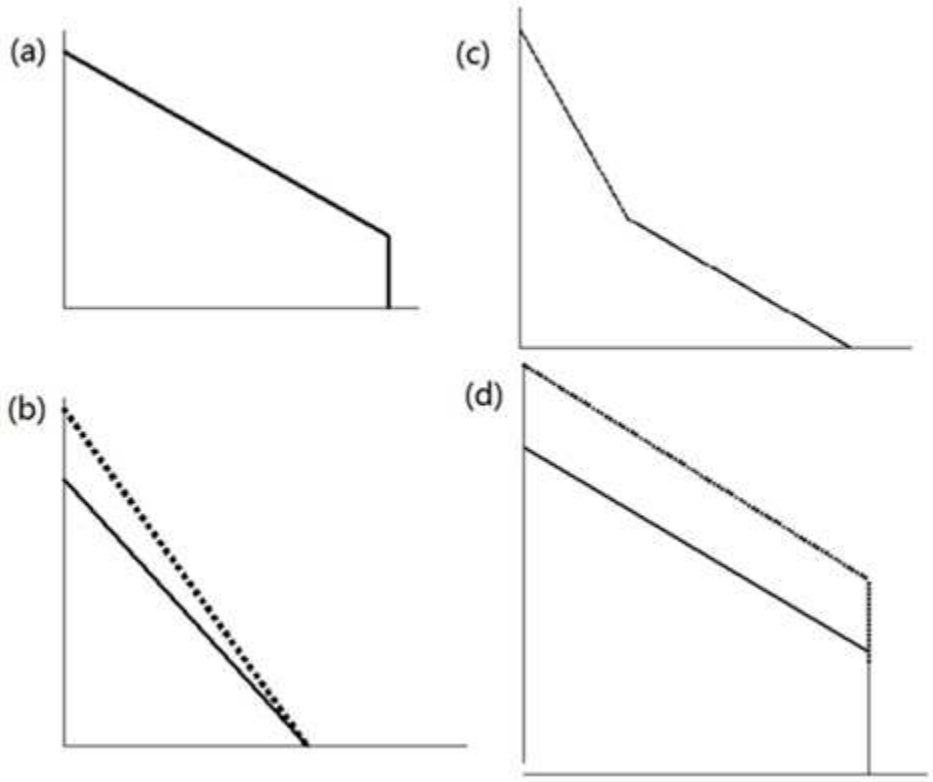


A) (a)
B) (b)
C) (c)
D) (d)
E) None of these above

Question Details
Bloom's : Analyze
Difficulty : Medium
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Topic : 02-08 Constraints

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26) Which of the diagrams given below corresponds to a budget line that involves a wage increase?

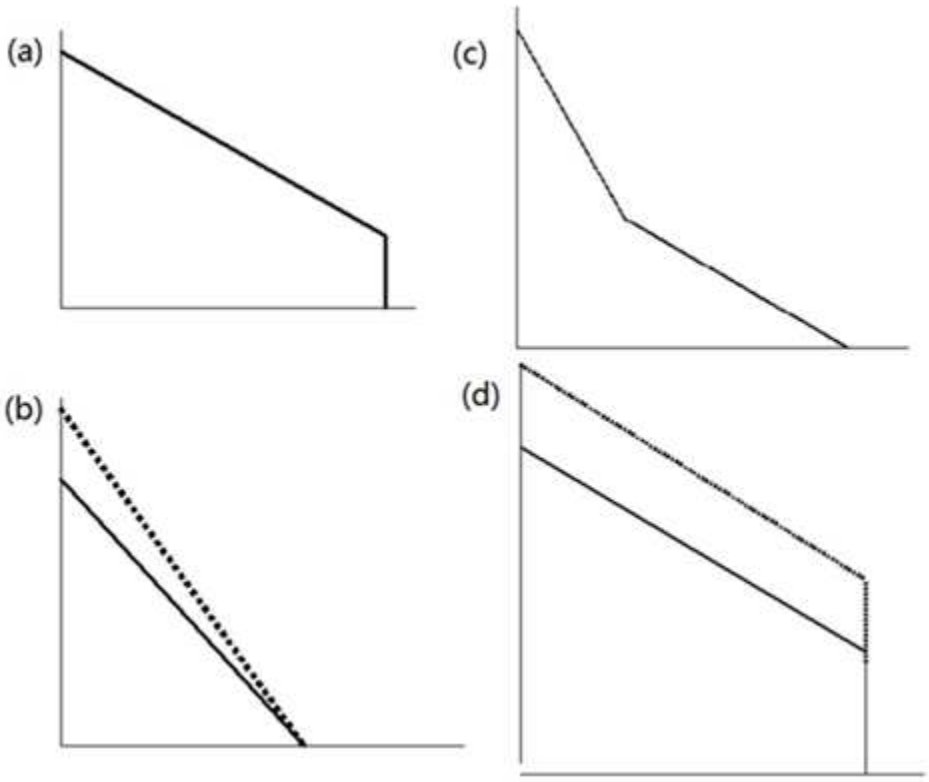


A) (a)
B) (b)
C) (c)
D) (d)
E) None of these above

Question Details
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Bloom's : Analyze
Difficulty : Medium
Topic : 02-10 Comparative Statics

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27) Which of the diagrams given below corresponds to a budget line that involves an increase in non-labour income?



A) (a)
B) (b)
C) (c)
D) (d)
E) None of these above

Question Details
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Bloom's : Analyze
Difficulty : Medium
Topic : 02-10 Comparative Statics

28) In the basic income-leisure model, what is indicated by a parallel shift of the budget line?

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A) The substitution effect
B) The total effect of a price change
C) A change in the preferences
D) The income effect of either a price change or an income change
E) The reservation wage

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Bloom's : Analyze
Difficulty : Medium
Topic : 02-10 Comparative Statics

29) Our income-leisure model suggests that if a worker is moonlighting, then:

A) She is underemployed.
B) She is unemployed.
C) she receives an overtime premium.
D) She is overemployed.
E) There is no income effect

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Bloom's : Apply
Topic : 02-21 Moonlighting and Underemployment

30) Our income-leisure model suggests that if a worker is working overtime, then:

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A) she Is underemployed.

B) she is overemployed.

C) if she is paid the straight-time equivalent, she will work more hours than over-time hours.

D) If she earns over-time premium, which leads to a greater income effect than substitution effect.

E) There is no substitution effect

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Bloom's : Apply
Topic : 02-22 Overtime and Overemployment

31) Which of the following statements regarding indifference curves is true?

A) If an individual has a lower valuation of leisure, then the slope of his indifference curve is steeper.

B) If an individual has a lower valuation of leisure, then the marginal rate of substitution of consumption over leisure is higher.

C) If an individual has a higher valuation of consumption, then the slope of his indifference curve is flatter.

D) If an individual has a higher valuation of consumption, then the marginal rate of substitution of consumption over leisure is higher.

E) None of these above

Question Details
Accessibility : Keyboard Navigation
Bloom's : Analyze
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Difficulty : Hard
Topic : 02-07 Preferences

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32) In the basic income-leisure model, how is the labour supply curve derived?

A) By varying the slope of the income constraint, finding the point of tangency with the indifference curve, and reading the quantity of hours worked off of the horizontal axis

B) By varying the position of the indifference curve, finding the point of tangency with the income constraint, and reading the quantity of hours worked off of the horizontal axis

C) By varying the slope of the income constraint, finding the point of tangency with the indifference curve, and reading the wage off of the vertical axis

D) By varying the position of the indifference curve, finding the point of tangency with the income constraint, and reading the wage off of the vertical axis

E) By varying the intercept of the income constraint, finding the point of tangency with the indifference curve, and reading the quantity of hours worked off of the horizontal axis

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Bloom's : Analyze
Difficulty : Medium
Topic : 02-13 Deriving the Individual Supply Curve of Labour

33) Which of the following statements regarding the added worker effect is true?

A) It resembles moonlighting

B) It works in a similar way as the discouraged worker effect

C) It tends to boost labour force participation when unemployment is low

D) It tends to reduce labour force participation when unemployment is high

E) It tends to boost labour force participation when unemployment is high

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Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Bloom's : Remember
Topic : 02-18 Added Worker Effects

34) Consider a worker who is supplying a positive number of hours. What could cause him to drop out of the labour force?

A) A flattening of her indifference curve
B) A change in preferences such that he values income more
C) A decrease in non-labour income
D) An increase in the offered wage
E) A decrease in the offered wage

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Bloom's : Analyze
Difficulty : Easy
Topic : 02-12 Participation

35) Consider a worker who is working a second job at lower pay because she needs to pay her mortgage payments. This choice is most closely associated with:

A) A reservation wage effect
B) A substitution effect
C) An income effect
D) A labour force participation effect
E) A backward bending supply curve

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Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Bloom's : Apply
Topic : 02-21 Moonlighting and Underemployment

36) Consider a worker who is working overtime hours in order to take advantage of the pay premium, even though she does not really feel like it. This choice is most closely associated with:

A) A reservation wage effect
B) A substitution effect
C) An income effect
D) A labour force participation effect
E) A backward bending supply curve

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Bloom's : Apply
Topic : 02-23 Overtime Premium versus Straight-Time Equivalent

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37) A major and recurring theme of this textbook is the role of empirical research in labour economics. Conceptual models exist to analyze many labour market phenomena, but often the predictions that emerge are ambiguous. It is the objective of empirical research to test the validity of these predictions, and to try to sort out the multiple effects, which may work simultaneously. Such is the case for the theory of individual labour supply. Discuss the major conceptual implications of this model as well as the results from the empirical literature with correspond to them. The key is to link the predictions, which flow from the model, to the hypotheses that have been examined in the literature. In particular, your response can follow the following outline:

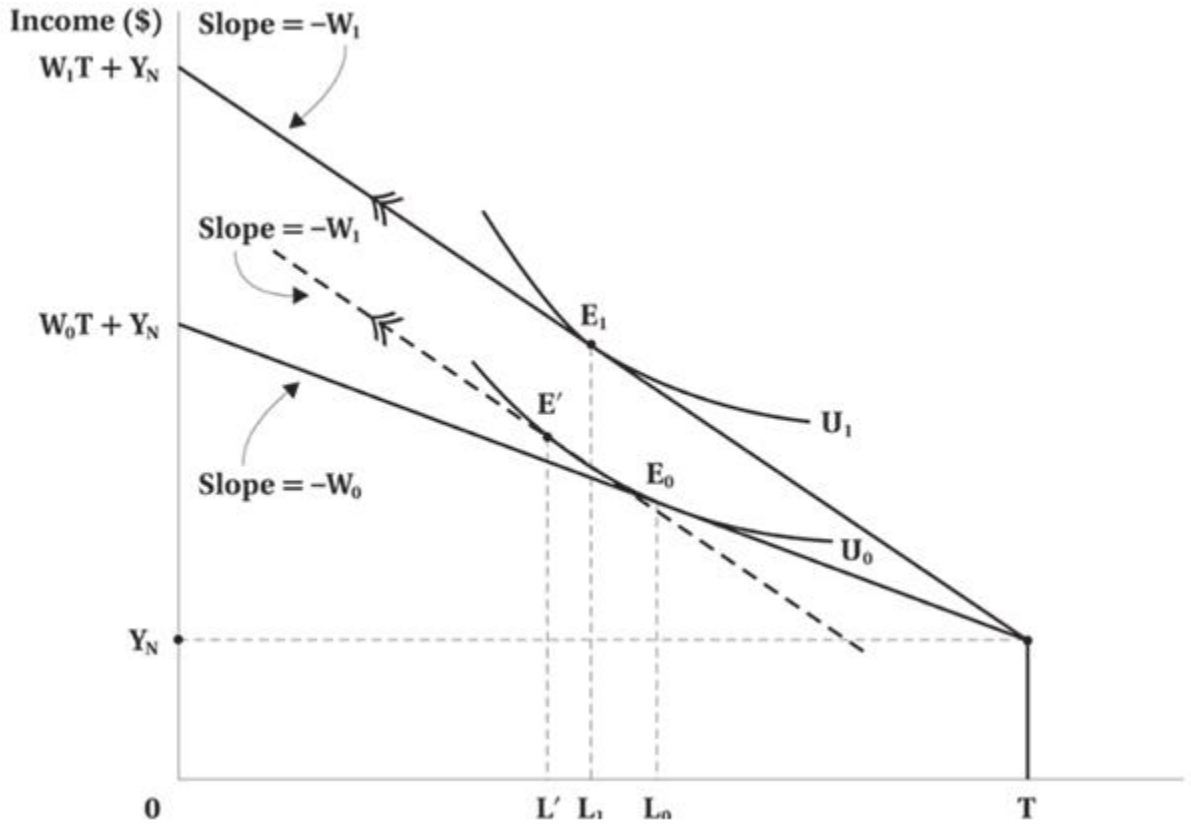
• Without getting bogged down in technical details (i.e., don't give a graph), explain intuitively the role of preferences and constraints in determining the optimal choice of hours worked.
• What is the impact on the choice of hours worked by an individual if the level of non-market income changes?
• Briefly describe the income effect and the substitution effect of a wage change, and relate this to the backward bending supply curve.
• A large number of econometric studies have estimated the shape of the labour supply curve, the sign of the wage elasticity of labour supply, and the income elasticity of labour supply. What have they found, generally speaking, regarding the slope of the supply curve? Does the slope differ between men and women?
• Figure 2.3 in the textbook shows what appears to be a slight negative empirical relationship across countries between per capita national income and male labour force participation rates, coupled with a slight positive empirical relationship across countries between per capita national income and female labour force participation rates. It might be possible to interpret these observed empirical patterns in terms of substitution effects and income effects.

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Topic : 02-11 Hours of Work for Participants
Bloom's : Analyze
Difficulty : Medium
Learning Objective : 02-05 Interpret the economic and other factors affecting a married woman's decis
Topic : 02-15 Participation, Married Women
Bloom's : Understand
Bloom's : Apply
Learning Objective : 02-02 Illustrate graphically how the labour supply model reflects the income and
Learning Objective : 02-03 Distinguish theoretically between the work choices made by individuals and
Topic : 02-09 The Consumer's Optimum
Topic : 02-08 Constraints
Topic : 02-13 Deriving the Individual Supply Curve of Labour
Topic : 02-10 Comparative Statics
Topic : 02-07 Preferences
Topic : 02-12 Participation
Topic : 02-14 Empirical Evidence

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38) The figure below pertains to questions 2.1, 2.2, and 2.3.



Question Details

38.1) Given a wage increase from W_0 to W_1, the distance between L' and L_1 represents:

A) The substitution effect
B) The income effect
C) The combined effect of both the substitution effect and the income effect
D) The equilibrium choice for hours worked
E) The equilibrium choice for leisure

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Topic : 02-11 Hours of Work for Participants
Bloom's : Analyze
Difficulty : Medium

38.2) Given a wage increase from W_0 to W_1, the distance between L' and L_0 represents:

A) The substitution effect
B) The income effect
C) The combined effect of both the substitution effect and the income effect
D) The equilibrium choice for hours worked
E) The equilibrium choice for leisure

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
Topic : 02-11 Hours of Work for Participants
Bloom's : Analyze
Difficulty : Medium

38.3) Given a wage increase from W_0 to W_1, the distance between I_1 and I_0 represents:

A) The substitution effect
B) The income effect
C) The combined effect of both the substitution effect and the income effect
D) The equilibrium choice for hours worked
E) The equilibrium choice for leisure

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Question Details
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Learning Objective : 02-04 Explain, using diagrams, how an increase in the wage rate leads to offsett
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Bloom's : Analyze
Difficulty : Medium

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Labour Market Economics 9ce Edition by Benjamin Ch02

Answer Key

Test name: Ch02

1) D
2) A
3) A
4) E
5) B
6) B
7) C
8) E
9) C
10) A
11) D
12) E
13) D
14) A
15) C
16) C
17) B
18) C
19) A
20) C
21) B
22) C
23) A
24) C
25) A
26) B

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27) D
28) D
29) A
30) B
31) C
32) A
33) E
34) E
35) C
36) B

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37) The consumer choice model is used to analyze an individual's labour supply decision. Consumers' preferences are represented by the indifference curve of consumption and leisure. Consumers' constraints are given by their wage income from working hours as well as a time constraint which is a combination of working hours and leisure hours. Consumers' objective is to maximize their total utility from consumption by choose their preferred combination of income/consumption and leisure, as represented by their opportunity set or budget constraint. If this optimum occurs at zero hours of work, the individual does not participate. If optimal hours are positive, the individual participates, and the marginal rate of substitution between leisure and consumption equals to the wage rate.
The reservation wage is given by the marginal rate of substitution between leisure and consumption, at zero hours of work, which is a critical wage in determining the participation decision. For wage above the reservation wage, the consumer will choose to work. Otherwise, the consumer will not participate.
The budget constraint of a consumer is composed of two parts: non-labour income and wage income from total working hours. Therefore the change of non-labour income and wage rate will affect a consumer's labour supply decision. If non-labour income increases, there will be a pure income effect, an individual who choose not to participate before will remain out of participation and an individual who has positive working hours will reduce his/her working hours and enjoy more leisure time. The change of the wage rate, however, will have a more complex effect on one's labour supply decision. For those who do not participate before, if the increase of the wage rate exceeds the reservation wage, they will choose to participate and the working hours is determined by the marginal rate of substitution of consumption and leisure and the wage rate. For those individuals who already work positive hours, a

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wage increase will have both income and substitution effect. An income effect from wage increase will induce more leisure and less working hours and a substitution effect (from the increase of the opportunity cost of leisure) will induce more working hours and less leisure. The overall effect of labour supply depends on the relative magnitudes of the two. This result is important to explain why labour supply curve can be backward binding. For an individual, the initial small increase of the wage rate may have a dominated substitution effect, which leads him/her to work more hours, however, as wage grows higher and higher, income effect grows larger and may become greater in magnitudes than the substitution effect, therefore, the individual will eventually reduce his/her working hours.

The empirical evidences on the estimate of elasticity of labour supply have further proved the results from income-leisure model. The shape of the labour supply curve really depends on the relative magnitudes of the income elasticity and compensated (substitution effect) elasticity. For example, Hansson and Stuart (1985) have summarized that, the overall elasticity of labour supply from a wage change is 0.10, uncompensated elasticity is about 0.25 and income elasticity is about -0.15. However, male and female may have a different labour supply schedule. Generally, for males, the labour supply schedule is likely to be slightly backward bending. For females, the labour supply schedule is more strongly forward sloping, shown a strong positive substitution elasticity outweighing the weak negative income elasticity. This empirical evidence can also be used in explaining the fact that the male participation rate is generally declining with national income and women's participation rises with nation income (Figure 2.3). For countries that average income is higher, higher wage rate induced strong income elasticity for males and strong substitution elasticity for females,

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which leads to lower participation rate for males and higher participation rate for females.

38) Section Break

38.1) B

38.2) A

38.3) C

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