



MICROECONOMICS UNIT 5

Factor Markets



BIG PICTURE IDEAS

- #1. A _____ market is where businesses purchase the resources they need to produce goods or services. This is also called an input market or _____ market.
- #2. The idea that the demand for resources is determined by the products they produce is called _____ demand.
- #3. In a perfectly competitive labor market, workers have identical skills and are wage _____.
- #4. Firms maximize profit by hiring workers when the marginal _____ product equals the marginal _____ cost.
- #5. A market controlled by only one buyer is called a _____.

■ Topic 5.1- Introduction to Factor Markets

1. Explain the difference between the factor market and the product market.
2. The four factors of production are _____, _____, capital, entrepreneurship.
3. The four factor payments _____, wages, _____, and profit.
4. Why is the demand for labor downward-sloping?
5. Why is the supply for labor upward-sloping?

■ Topic 5.2- Changes in Factor Demand and Supply

Pizza Cooks



6. Draw the supply and demand for cooks and show a binding minimum wage. Label the equilibrium wage (W_1) and quantity (Q_1) and the minimum wage (W_M) and quantity (Q_M).
7. A binding minimum wage can cause _____ since businesses often hire fewer workers.
8. Identify the shifters of labor demand.
9. Identify the shifters of labor supply.

10. For each scenario, identify the initial change (\uparrow , \downarrow , or no change) in demand or supply, price, and quantity of pizza cooks

Scenario	Demand	Supply	Wage	Quantity
The government requires pizza cooks to pass an exam to get certified to make pizza.				
The price of burgers increases, causing the price of pizza to increase.				
Technological advancements lower the price of robots that can make pizza.				
The government establishes a binding minimum wage that affects pizza cooks.				
Instagram influencers encourage teenagers to get jobs at pizza restaurants.				



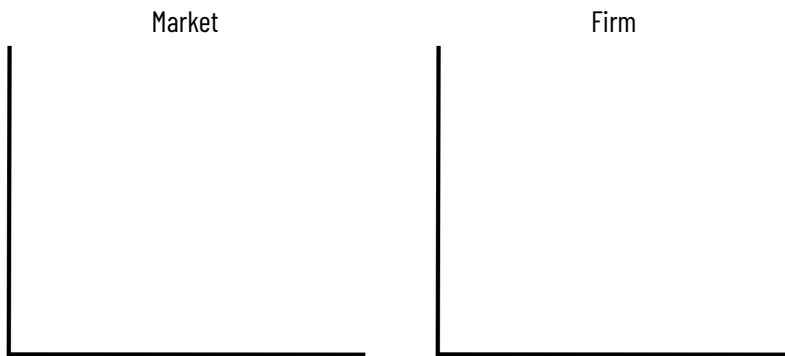
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■ Topic 5.3- Profit-Maximizing Behavior in Perfectly Competitive Factor Markets

11. Workers in perfectly competitive labor markets work for the same _____ which is set by the _____.
12. Define marginal revenue product (MRP).
13. Define marginal resources cost (MRC).
14. Assume perfectly competitive product and labor markets. If the price of the product is \$5 and the wage is \$20, how many workers should be hired?
15. How much is the profit or loss?
16. Assume this firm develops a process that makes only their workers more productive. What will happen to the wage and quantity of workers hired?
17. Draw a perfectly competitive labor market and firm. Label the wage W_1 the quantity in the market Q_M and the quantity for the firm Q_F .

Number of Workers	Total Product	MRP
0	0	
1	5	
2	15	
3	20	
4	23	
5	24	



18. The _____ of labor for firms in perfect competition is perfectly elastic.
19. If the government sets a binding minimum wage, will the MRP of the last worker hired increase, decrease, or stay the same? Explain.

■ Topic 5.3- Profit-Maximizing (continued)

20. What is the least cost rule when combining resources?

Assume a firm hires the cost-minimizing combination of labor and capital. The marginal product of the last worker is 60 units and the marginal product of the last unit of capital is 20 units.

21. If the wage rate is \$30 per hour, what is the price of capital?
22. If the wage falls to \$10 per hour, the company should hire _____ workers and _____ capital.

■ Topic 5.4- Monopsonistic Markets

23. Draw a monopsony and label the wage and quantity.



■ Unit Review

True or False

24. If the demand for houses increases, the wage of carpenters will increase and the quantity will decrease.
25. Assume bricks and wood are substitute resources. If the price of bricks increases, the price of wood will increase.
26. A binding minimum wage leads to relatively less unemployment when the demand for labor is inelastic.
27. A monopsony hires less workers and pays lower wages than a competitive labor market.