

ECON 120  
Review Questions  
Third Exam

Spring 2008

1. What are the assumptions of resource demand analysis?
2. What are the assumptions of a pure competition resource market? Diagram the firm and market in equilibrium.
3. What is MRP and MRC? How does the firm determine its profit maximizing resource employment?
4. What is the resource demand for a single firm? What is the market demand curve for the resource?
5. Why does the resource demand curve of a perfectly competitive firm have a negative slope? Why does the resource demand curve of an imperfectly competitive firm have a negative slope?
6. Compare the resource employment of an imperfectly competitive firm to that of a perfectly competitive firm.
7. What are the determinants of resource demand?
8. What are the determinants of the elasticity of resource demand?
9. How is the profit maximizing combination of resources determined?
10. Why is the general level of wages higher in the industrially advanced countries compared to developing countries?
11. How do the wages and employment of a monopsony compare to that of a purely competitive labor market?
12. What methods can be employed by labor unions to increase the demand for union labor?
13. How do the wages and employment of a craft union compare to that of a purely competitive labor market?
14. How do the wages and employment of an industrial union compare to that of a purely competitive labor market?
15. How can the unemployment effect of higher union wages be reduced?
16. How are wages and employment determined in a bilateral monopoly labor market?
17. According to the empirical evidence, what are the effects of the minimum wage on the market for unskilled labor?
18. One of the reasons for occupational wage differentials is the existence of non-competing labor groups. What causes the formation of non-competing labor groups?

19. Other sources of occupational wage differences are compensating differences and labor market imperfections. Explain compensating differences. How do market imperfections contribute to occupational wage differences?
20. What are the causes of the increasing U.S. income inequality in the 1980's and 1990's?
21. What does income mobility refer to? How does the length of the time period considered affect income inequality?
22. How do government transfers and taxes affect the distribution of income? Which of these (taxes and transfers) has the greatest effect on the income distribution?
23. What are the causes of income inequality?
24. What is the argument for an equal distribution of income? What is the argument for an unequal distribution of income?
25. Which socioeconomic groups have high poverty rates; low poverty rates? Why are the poor "invisible"?
26. What are the principal U.S. social insurance programs? What are the major U.S. public assistance programs?
27. What are the three features that are common to all public assistance programs. What welfare goals are associated with each of these three features and what relationship does the goal have to the feature? What are some examples of welfare goal conflict?
28. What are the major provisions of Personal Responsibility Act (1996)?
29. What are the various types of labor market discrimination?
30. According to the taste for discrimination model, what effect does employer taste for discrimination have on the labor group that is discriminated against?
31. Explain the statistical discrimination theory.
32. What effect does occupational segregation have on the wages of men and women?
33. What government policies can reduce labor market discrimination?
34. What are the arguments for and against affirmative action?
35. What determines land rent? Why do economists consider rent to be a surplus payment?
36. What are the arguments for and against land taxes?
37. Why is land rent a cost for an individual firm but not a cost from society's point of view?
38. Why is the supply of loanable funds upward sloping and the demand for loanable funds downward sloping?
39. What effect would an increase in the supply of loanable funds have on the interest rate? What would be the effect of an increase in demand for loanable funds?

40. How does the interest rate vary with the following: risk, loan maturity, loan size, market imperfections, state and local government bonds.
41. How does the interest rate affect the following, (a) total output, (b) the allocation of capital, (c) level and composition of R & D spending.
42. What are the sources of economic profit? What are the functions of economic profits?