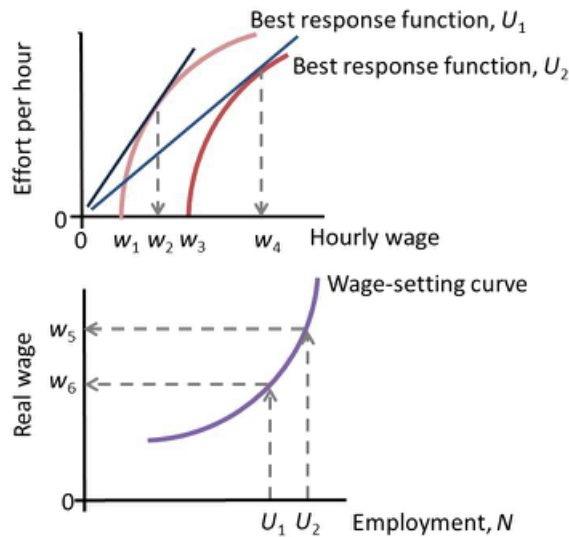


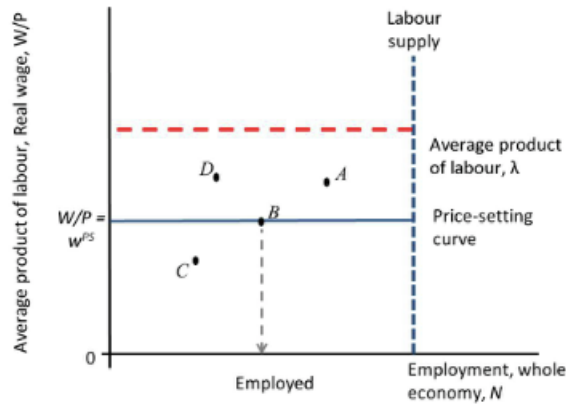
# ECO111 Problem Set 9

8 November 2024

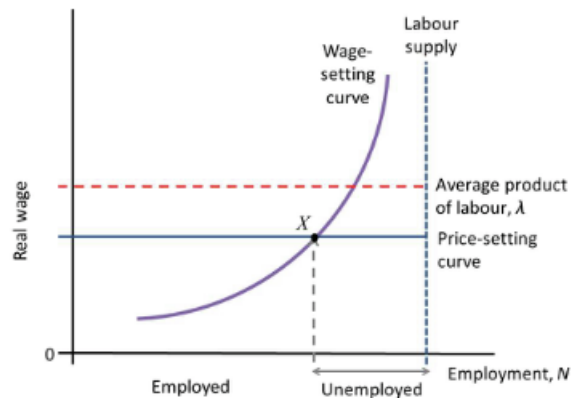
- The figure depicts the wage setting curve and how it is derived using the best response function of the employees and the iso-cost line for effort of the employers.  $U_1$  and  $U_2$  are unemployment rates. Which of the following statements is correct?



- $w_2$  is the reservation wage when the unemployment rate is  $U_1$ .
  - $w_5 = w_3$ .
  - $U_1 < U_2$ .
  - $w_5$  is the equilibrium wage when the unemployment rate is  $U_2$
- The figure depicts the price-setting curve. Assume that the average product of labor  $\lambda$  is given. Based on this figure, which of the following statements is correct?

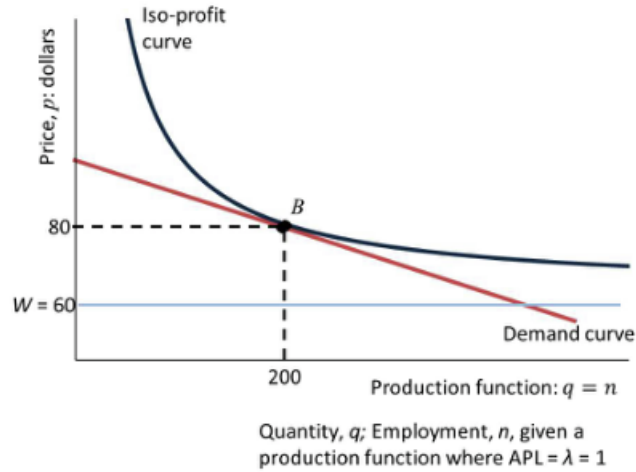


- (a) At C, the markup is below the firm's profit-maximizing level.
  - (b) To go from A to B, the firm would be raising its price.
  - (c) The firm's profit is higher at A than at C.
  - (d) D is not a feasible choice for a firm.
3. The figure depicts the labour market model. Which of the following statements are correct at outcome X?

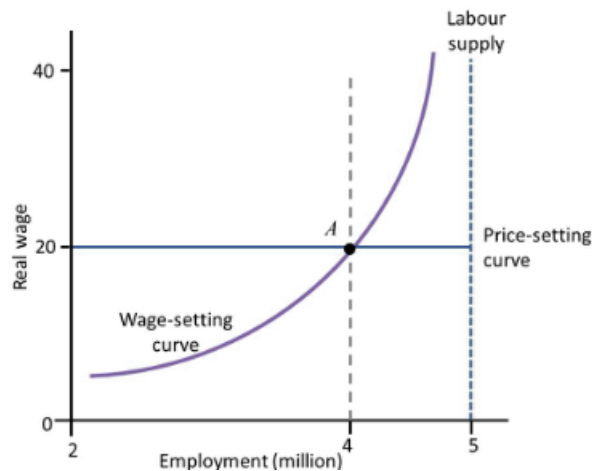


- (a) The firms' wage offered is at the point of tangency between their isocost line and the workers' best response function curve for effort.
- (b) The firms' price and output are at the point of tangency between their isoprofit curve and their demand curve.
- (c) Once they have the job, employees are better off not exerting any effort in their work.
- (d) The unemployed can get a job by offering to work for a wage lower than the equilibrium wage.

4. Given the following iso-profit curve and demand curve of the firm Z. The firm faces a linear demand curve. The workers' average product of labor  $\lambda$  equals 1. At B, find the



- (a) slope of the isoprofit curve
- (b) markup
- (c) profits
5. The figure depicts a labour market. Now consider an inflow of half a million immigrant workers who are all looking for employment (rather than intending to start up a business). Which of the following statements is correct?



- (a) Unemployment doubles initially.

- (b) The wage-setting curve temporarily shifts down.
- (c) The firm's MC of production is temporarily reduced.
- (d) All immigrants find work.