

ANSWER KEY - Writing Assignment 3: Monopsony and the Minimum Wage

Section 1.

(a). Point C in the figure is competitive equilibrium. (b). Under a competitive equilibrium a minimum wage reduces employment. (c). Point B is the equilibrium employment and wage under monopsony. (d). The minimum wage increases both wages and employment under monopsony.

Section 2.

Monopsony has **redistributive** and **waste** effects, as well as **misemployment**, **employers cutting benefits instead of wages**, **increased consumer prices**, and **reinforcing monopoly power**.

Section 3.

Card and Krueger's finding that the minimum wage did not reduce employment suggests that the market is a monopsony market and not a competitive market, since firms were able to absorb the higher wage without reducing employment.