

There are 75 points on this problem set. Question 1 is a short question and questions 2-4 are long questions with sub-questions. For long questions, please read the main description carefully before starting to answer the sub-questions.

1.1

5.0/5.0 points (graded)

True or False? Suppose that policymakers have set a binding minimum wage in a labor market that was previously monopsonistic (prior to the minimum wage). A small further increase in the minimum wage in this market will certainly increase employment.

☐ True

☒ False



**Explanation**  
It depends on which level the initial minimum wage is. In particular, whether it is above or below the level that would prevail under competitive markets. If the initial minimum wage is below the competitive equilibrium, a small increase in minimum wage will indeed increase employment. However, if the initial minimum wage is above the competitive equilibrium level, then lowering the minimum wage will increase employment.

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