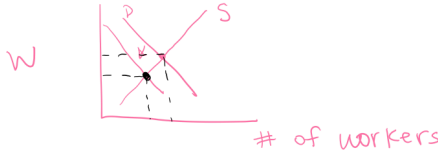


1. The major labor market problem in the United States is _____ and in Western Europe the problem is _____.

- A. high persistent unemployment; low average wages
- B. high persistent unemployment; increasing wage inequality
- C. increasing wage inequality; increasing wage inequality
- D. increasing wage inequality; high persistent unemployment.

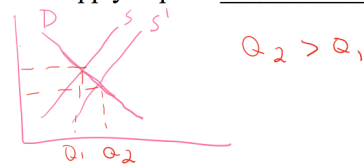
2. Holding other factors constant, if food prices decline relative to the prices of other products, then the real wages of agricultural workers will \downarrow and employment of agricultural workers will \downarrow .

- A. increase; increase
- B. increase; decrease
- C. decrease; not change
- D. decrease; decrease



3. Slower growth in labor demand in combination with increases in labor supply explain _____ accompanied by _____.

- A. a slowdown in real wage growth; a decline in employment
- B. a slowdown in real wage growth; rapid employment growth
- C. a slowdown in real wage growth; increasing wage inequality
- D. accelerated real wage growth; a decline in employment



4. Factors increasing the labor supply and thereby contributing to the slowdown in real-wage growth that began in the 1970s include _____ and _____.

- A. skill-biased technological change; globalization
- B. increased labor force participation by women; the coming-of-age of the baby-boom generation
- C. technological progress; diminishing returns to labor
- D. increasing wage inequality; globalization

5. Initially, workers in the shoe industry and the computer industry earn the same wage. Reductions in trade barriers give domestic consumers access to cheaper shoes produced abroad, so domestic shoe prices fall. At the same time, foreign consumers purchase more computers, raising the relative price of computers. As a result of these changes, wages in the shoe industry ↓ and wages in the computer industry ↑.

- A. increase; increase
- B. increase; decrease
- C. decrease; increase
- D. decrease; decrease

6. Globalization can increase wage inequality in the United States, if international competition is primarily in industries requiring _____ workers.

- A. many
- B. few
- C. highly-skilled
- D. low-skilled

7. In a small town of 100 people, there are 10 children under 16, 10 retired people, 60 people with full-time jobs, 3 people with part-time jobs, 3 full-time students over 16, and 4 full-time homemakers. The remaining people did not have jobs, but wanted them. All but one of these had actively looked for a job in the previous four weeks. What is the unemployment rate in this town?

- A. 10.0%
- B. 11.0%
- C. 12.5%
- D. 14.3%

$$\frac{U}{E+U}$$

$$E: 60 + 3$$

$$U: 9$$

$$100 - 10 - 10 - 60 - 3 - 3 - 4 - 1 = 9$$

$$\text{unemployment rate} = \frac{9}{72} =$$

8. Data for an economy shows that the unemployment rate is 6%, the participation rate 60 percent, and 200 million people 16 years or older are not in the labor force. How many people are unemployed this economy?

- A. 6 million
- B. 12 million
- C. 18 million
- D. 20 million

$$\frac{U}{E+U} = 0.06$$

$$\frac{U}{300 \text{ mil}} = 0.06$$

$$U = 18 \text{ mil}$$

$$E+U = 0.6E + 0.6U + 120 \text{ million}$$

$$.4U = -0.4E + 120 \text{ million}$$

$$U = -E + 300 \text{ mil}$$

$$\frac{E+U}{E+U+N} = 0.6$$

$$N = 200 \text{ million}$$

9. The towns of Jekyll and Hyde each have a labor force of 2,000 people. In Jekyll, 500 people were unemployed for the entire year, while the rest of the labor force was employed continuously. In Hyde, every member of the labor force was unemployed for three months and was employed for nine months. The average duration of unemployment spells over the year was ____ months in Jekyll and ____ months in Hyde.

- A. 3; 3
- B. 3; 9
- C. 12; 3
- D. 12; 9

10. In an economy of 100 people in the labor force, if 10 people are unemployed for 4 weeks during the year, and 30 people are unemployed for 8 weeks during the year, and the rest are employed continuously throughout the year, then the average duration of unemployment in this economy is:

- A. 4 weeks.
- B. 7 weeks.
- C. 8 weeks.
- D. 20 percent.

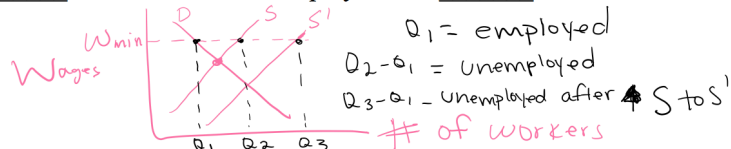
$$\frac{10(4 \text{ weeks}) + 30(8 \text{ weeks})}{40} = 7 \text{ weeks}$$

11. Which of the following is an example of structural unemployment?

- A. Dora lost her job when the textile mill closed. She does not have skills to work in another industry and has been unemployed for over a year.
- B. Marsha was laid off from her job with the airline because the recession has reduced the demand for airline travel. She expects to get her job back when the economy picks up.
- C. Alan, a software engineer, lost his job when the internet startup he worked for went bankrupt. He interviewed with five companies in the area before taking a job with another firm in the industry.
- D. Jim had a job as an engineer, but quit when his wife was transferred to another state. He looked for a month before finding a new job that he liked.

12. Assume the minimum wage exceeds the market-clearing wage. If there is an increase in the labor supply, then current number of unemployed will ↑ and the number of employed will —.

- A. increase; increase
- B. increase; decrease
- C. increase, not change
- D. decrease; increase



13. Unemployment insurance contributes to structural unemployment by:

- A. keeping wages above the market-clearing level.
- B. keeping wages below the market-clearing level.
- C. allowing unemployed workers to search longer or less intensively for jobs.
- D. forcing unemployed workers to take the first job offered to them.

14. Structural unemployment will decrease when:

- A. the minimum wage is increased.
- B. the minimum wage is decreased.
- C. unemployment insurance benefits are increased.
- D. union wages are increased.

15. The high rates of unemployment in Western Europe can be explained by:

- A. slow productivity growth and large increases in the labor supply.
- B. rapid productivity growth and small increases in the labor supply.
- C. labor market rigidities and decreases in the marginal productivity of low-skilled workers.
- D. labor market reforms and increases in the marginal productivity of low-skilled workers.