

Marginal Productivity Theory

1. The marginal product of labor tells us

- A) which employee is the most productive
- B) the average output produced by each employee.
- C) the additional output produced by the last employee hired.
- D) how much money the firm can make from hiring each employee.

2. Diminishing marginal returns occur because

- A) hiring more employees means that each has less capital with which to work.
- B) it is more difficult to manage a firm as the size of the workforce and capital stock both grow.
- C) the best employees will always be hired first.
- D) hiring more employees means that they will subdivide tasks and therefore become more efficient.

TABLE 3-1

Total # of Pots	Number of Workers	Produced Per Day
0	0	6
13	3	18
	4	21
	5	23
	6	22

3. Referring to Table 3-1, diminishing marginal returns begins with the _____ employee.

- A) first
- B) second
- C) third
- D) sixth

4. Referring to Table 3-1, which is INCORRECT. If pots sell for \$20 each then

A) the marginal revenue product of labor of the second worker is \$260.

B) the marginal product of the third worker is five pots.

C) the marginal revenue from selling the eighteenth pot is \$20.

D) the marginal revenue product of labor equals the marginal product of labor multiplied by the additional revenue that is received per unit of output.

5. Referring to Table 3-1, if wages are \$50.00 per day and pots sell for \$20.00 each, how many potters will the firm hire?

A) two

B) three

C) four

D) five

6. If the firm hires to a point where the marginal expense of labor is greater than the marginal revenue product of labor, then

A) profits could be increased by increasing employment.

B) profits could be increased by reducing employment.

C) profits are maximized.

D) total cost must be greater than total revenue.

7. When deciding the salary of a sports star,

A) the team must consider how much money the sports star should earn.

B) the team must consider how much the sports star will cause revenues to increase.

C) the team estimates the sports star's marginal product; because this is a guess, sports stars are generally underpaid.

D) the team will hire the sports star if doing so will increase the team's revenues.

8. The firm's labor demand curve in the short run

- A) is upward sloping.
- B) is horizontal.
- C) is the downward sloping segment of the marginal revenue schedule.
- D) is the downward sloping segment of the marginal product of labor schedule.