

The Tug-o-War of Labor Markets | Worksheet



Matching

Match the definition in Column A with the term in Column B.

Column A

- _____ Workers hired equal the number of workers willing to work.
- _____ Working less due to more income.
- _____ Workers businesses want at each wage level.
- _____ Working more due to more income.
- _____ Workers look for work, and employers look for employees.
- _____ Extra output from one more worker.

Column B

- a. Labor market
- b. Labor demand
- c. Equilibrium wage
- d. MPL
- e. Substitution effect
- f. Income effect

Multiple Choice

1. **What does it mean when a worker's marginal product of labor is greater than their wage?**
 - a. The worker is not worth hiring
 - b. The business should lower the wage
 - c. The worker is producing more value than they cost
 - d. The worker is choosing to work fewer hours
2. **What could cause a decrease in labor demand for a particular job?**
 - a. Workers asking for lower wages
 - b. A law that raises the minimum wage
 - c. A drop in the number of job seekers
 - d. A sudden rise in worker productivity
3. **Which of the following best describes the substitution effect?**
 - a. Workers decide to work fewer hours after a pay raise
 - b. Employers switch to hiring machines instead of workers
 - c. Workers are more likely to work when higher wages make leisure more costly
 - d. Employers substitute one worker for another with better skills
4. **What is the main factor that causes a wage to settle at the equilibrium level?**
 - a. Government regulation
 - b. A worker's level of education
 - c. Employer generosity
 - d. The balance between labor supply and labor demand

Application

Why might two people respond differently to the same wage increase—one working more hours and the other working fewer? Use the concepts of the substitution effect and income effect in your answer.



The Tug-o-War of Labor Markets | Answer Key

Matching

Match the definition in Column A with the term in Column B.

Column A

- c. Workers hired = workers willing to work.
- f. Working less due to more income.
- b. Workers businesses want at each wage level.
- e. Working more due to more income.
- a. Workers look for work, employers look for employees.
- d. Extra output from one more worker.

Column B

- a. Labor market
- b. Labor demand
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Multiple Choice

1. **What does it mean when a worker's marginal product of labor is greater than their wage?**
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Application

Why might two people respond differently to the same wage increase—one working more hours and the other working fewer? Use the concepts of the substitution effect and income effect in your answer.

Sample Answer Key:

One person might work more hours because the higher wage makes it feel like they're missing out on more money if they don't work. That's the substitution effect—they trade their free time for more work.

The other person might already make enough money and decide they don't need to work more. That's the income effect—they now feel like they can afford to work less and enjoy more free time.

Guidance for Grading

- Substitution Effect:** The student should correctly explain that one person might choose to work **more** because the higher wage increases the **opportunity cost of leisure**. This means the person sees more benefit in working than in taking time off.
- Income Effect:** The student should explain that another person might choose to work **less** because the higher wage allows them to maintain their standard of living with fewer hours, giving them more time for leisure or other goals.
- Clear Contrast Between Two People:** The student should **compare two different responses** to the same wage increase—one working more, the other less, using both concepts meaningfully.