CHAPTER 16

WAGES AND EMPLOYMENT: MONOPSONY AND LABOR UNIONS

Chapter in a Nutshell

We continue our discussion of labor markets in this chapter with monopsony labor markets. Instead of many buyers of labor, we assume there is only one buyer of labor — a monopsony exists. A monopsonist is able to reap a return to monopsony power by hiring workers up to the point where the MRP of labor is equal to the MLC and paying the workers a wage rate read from the labor supply curve, which lies below the MLC. However, monopsony labor markets are sometimes marked by the presence of labor unions, which bargain with the monopsonist for higher wages, shorter hours, and better working conditions. A labor union can confront the monopsonist with a horizontal MLC curve and, as a result, capture the return to monopsony power for the workers it represents.

An overview of labor history in the United States is presented in the chapter. The divergent goals of unions and their employers during collective bargaining are considered. Sometimes, the failure of collective bargaining results in a union declaring a strike in order to achieve its goals for wages, hours, and working conditions. The differences between craft and industrial unions, closed and union shops are discussed. Finally, important legislation regarding labor is reviewed.

After studying this chapter, you should be able to:

- Explain why the monopsonist’s labor supply curve is the market supply of labor.
- Derive the marginal labor cost curve from the supply curve for labor.
- Describe how a labor union can alter the marginal labor cost curve to increase wages.
- Discuss the conflicts that arise between unions and monopsonists over wages and employment.
- Show how the elasticity of demand for labor can influence union strategies.
- Outline the historical development of unions in the United States.

Concept Check — See how you do on these multiple-choice questions.

If a monopoly is a single seller, then a monopsony is a . . .

1. A monopsony is
   a. the same as a monopoly only bigger
   b. a market with only one buyer
   c. a labor market with a union
   d. a closed shop
   e. a union shop

For this question, remember that the market supply of labor is the monopsonist’s supply of labor.

2. The marginal labor cost for a monopsonist is
   a. the same as the market supply of labor
   b. above the market supply of labor
   c. below the market supply of labor
   d. lower with a union
   e. unchanged by the presence of a union
Recall that a monopsonist won’t pay the last worker hired his/her marginal revenue product.

3. The return to monopsony power is
   a. the result of lower wages accepted by unions when their strikes are broken
   b. the difference between the marginal revenue product and the wage rate for the last worker hired
   c. larger as the power of a union increases
   d. smaller as the power of a union increases
   e. the difference between the marginal revenue product and the wage rate for the last worker hired multiplied by the number of workers hired

The following question requires that you think about the process that usually precedes a decision to strike?

4. When a labor union goes on strike, it is often the result of
   a. a failure to produce a contract acceptable to the union through collective bargaining
   b. unrealistic union demands
   c. unrealistic demands by the firm
   d. an unwillingness to negotiate
   e. carefully orchestrated union strategy to push the firm to bankruptcy

Be sure to learn the various labor legislative acts and their provisions.

5. The most important piece of labor legislation in the United States has been the
   a. Norris-La Guardia Act of 1932
   b. Wagner Act of 1935
   c. Taft-Hartley Act of 1947
   d. Landrum-Griffin Act
   e. Civil Rights Act of 1964

Am I on the Right Track?

Your answers to these questions should be b, b, e, a, and b. Analogies can be drawn between monopoly and monopsony. A monopoly is a single seller whereas a monopsony is a single buyer. The demand curve for a monopolist is the market demand curve, whereas the supply curve for a monopsony is the market supply curve. The marginal revenue curve for a monopoly is below the demand curve whereas the marginal labor cost for a monopsonist employer is above the labor supply curve. Wage and employment determination for a monopsonist is different from that of a firm hiring labor in a competitive labor market. We’ll explore this difference in a graphing tutorial. Be sure to note the new key terms, many of which correspond to unions and their activities.

Key Terms Quiz — Match the terms on the left with the definitions in the column on the right.

1. monopsony       a. a union representing workers of a single occupation regardless of the industry
2. labor union      b. the withholding of labor by unions when collective bargaining fails
3. strike           c. a firm that may hire only union labor
4. collective bargaining   d. the firm may hire nonunion labor, but once hired, they must join the union within a specified time period
5. return to monopsony power e. negotiation between a labor union and a firm employing labor
6. closed shop      f. a labor market with only one buyer
7. union shop       g. a union representing all workers in a single industry regardless of each worker’s skill or craft
8. craft union h. the difference between the MRP and the wage rate of the last worker hired, multiplied by the number of workers hired
9. industrial union i. an association of workers that negotiates wages, hours, and working conditions
10. marginal labor cost j. the firm may only hire union labor

Graphing Tutorial

The key difference between competitive labor markets that we studied in the last chapter and monopsony that we consider in this chapter is that there are many buyers of labor in competitive labor markets and only one buyer of labor in monopsony. In a competitive labor market, the market demand for labor and the market supply of labor interact to set an equilibrium wage. Firms that hire labor cannot influence this equilibrium wage. They can hire as much labor as they want at the market wage rate. Therefore, the marginal labor cost curve is a horizontal line at the wage rate.

However, in a monopsony labor market, the market supply of labor is the firm’s supply of labor because only one firm is hiring labor. Each time the firm wants to hire additional labor, it must increase the wage somewhat in order to match the opportunity cost of the additional workers hired. It must pay this increased wage to all workers hired previously at a lower wage rate. Therefore, the marginal labor cost is equal to the higher wage that must be paid to the additional labor hired, plus the increment to wages paid to workers hired previously at lower wage rates. Thus, the marginal labor cost is above the supply of labor curve for the monopsonist.

Let’s work through a numerical example and examine wage determination for a monopsony. Suppose that Janet Goulet has managed to acquire all the firms in the fishing industry described in the graphing tutorial for the previous chapter. She is a monopsonist — the sole buyer of labor in the fishing industry. Goulet Fishing, Unlimited faces the following labor supply function. The total labor cost and marginal labor cost are shown in the third and fourth columns of the table.

<table>
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<tr>
<th>Workers</th>
<th>Wage ($/run)</th>
<th>TLC</th>
<th>MLC</th>
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<tr>
<td>10</td>
<td>500</td>
<td>5,000</td>
<td>500</td>
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<td>1,000</td>
<td>20,000</td>
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<td>2,500</td>
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<td>180,000</td>
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<tr>
<td>70</td>
<td>3,500</td>
<td>245,000</td>
<td>6,500</td>
</tr>
</tbody>
</table>

Note that at every level of employment, the marginal labor cost is greater than the wage, so that when the labor supply curve and the marginal labor cost curve are graphed, the marginal labor cost curve will lie above the labor supply curve. These two curves are shown in the graph on the following page with a marginal revenue product curve superimposed on them.
How many workers should Goulet Fishing, Unlimited hire? Janet will follow the same rule that the firm hiring in the competitive market did in the previous chapter. Namely, she will continue to hire workers until MRP = MLC. This intersection of the marginal revenue product and marginal labor cost occurs at 40 workers. What wage will they be paid? Wages are read from the labor supply curve. The 40 workers will each earn $2,000 per run. However, this is $1,500 below the $3,500 marginal revenue product of the 40th worker.

We can now use the graph to show the return to monopsony power. The monopsonist pays each worker $1,500 less than the marginal revenue product of the last worker hired. Therefore, the return to monopsony power is $1,500 multiplied by 40 workers or $60,000. This area is outlined by the heavy rectangle.

**Graphing Pitfalls**

Be sure that you don’t confuse the labeling of the marginal labor cost curve and the labor supply curve in a graph that represents a monopsony. The marginal labor cost curve is always above the labor supply curve. The monopsonist pays workers wages that are read from the labor supply curve. However, in order to hire additional units of labor, the monopsonist must pay a higher wage rate, not just to the additional units of labor hired, but to all the labor hired previously at lower wage rates. Therefore, the marginal labor cost curve is above the labor supply curve.

Consider the way the two curves are labeled in the diagram on the following page. Instead of reading down to the labor supply curve to find the wage rate, you would read up from the intersection of the MRP and MLC to find the wage rate. How would you calculate the return to monopsony power? It just doesn’t compute.
The MLC is always above the labor supply curve because a monopsonist that hires additional units of labor must pay a higher wage rate to those units, and that wage rate must also be paid to units of labor hired previously at lower wage rates.

**True-False Questions** — If a statement is false, explain why.

1. Monopsony exists when there is only buyer of labor in a labor market. (T/F)

2. A monopsonist can hire any quantity of labor at any wage rate it chooses. (T/F)

3. A monopsonist faces the market supply curve of labor. (T/F)

4. A monopsonist will hire workers until the marginal revenue product of labor intersects the labor supply curve. (T/F)

5. Under monopsony, marginal labor cost and the supply curve for labor are precisely the same. (T/F)

6. The marginal revenue product of the last worker hired under monopsony is less than the wage rate the worker receives. (T/F)
7. A union can increase both the wage rate and employment in a monopsony market by dictating a wage rate to the monopsonist that makes the marginal labor cost curve a horizontal line. (T/F)

8. A union facing a monopsonist will always oppose the adoption of a new technology that results in increased labor productivity because jobs will be cut. (T/F)

9. The return to monopsony power is the difference between the marginal revenue product and the wage paid to the last worker hired. (T/F)

10. Firms that sell their output in highly competitive markets tend to have elastic demands for labor. (T/F)

11. A union attempting to raise the wage rate will cause fewer workers to be laid off if the demand for labor is highly inelastic. (T/F)

12. A union shop is one in which only union workers are hired. (T/F)

13. Early union activity in the United States was limited by court decisions holding that unions were criminal conspiracies. (T/F)

14. The Wagner Act forced businesses to accept unions as legitimate institutions in collective bargaining. (T/F)

15. The American Federation of Labor was interested in structural change in the economy, as well as obtaining higher wage rates for its members. (T/F)

Multiple-Choice Questions

1. A monopsony market is characterized by
   a. many buyers
   b. many sellers
   c. a single buyer
   d. a single seller
   e. only a few buyers

2. The supply curve of labor facing a monopsonist is always
   a. lower than the supply curve facing a competitive firm
   b. identical to the market supply curve of labor
   c. backward bending
   d. perfectly elastic
   e. horizontal at the market wage
3. The monopsony's labor demand curve is always
   a. the sum of the firms' marginal revenue product curves
   b. upward sloping because the labor market is competitive
   c. its marginal revenue product curve
   d. horizontal because the labor market is competitive
   e. downward sloping because the labor market is competitive

4. If a profit-maximizing monopsony is hiring workers at a point where its marginal revenue product is less than its marginal labor cost, it
   a. has hired too many workers
   b. has hired too few workers
   c. should shut down
   d. should shift the supply curve of labor to the left
   e. should shift the supply curve of labor to the right

5. When a monopsonist hires an additional worker, the wage rate for that worker and for all workers hired at lower wage rates must be increased, which causes
   a. unemployment
   b. losses for the monopsonist
   c. profits for the monopsonist
   d. the marginal labor cost curve to lie above the supply curve for labor
   e. the supply curve for labor to lie above the marginal labor cost curve

6. A profit-maximizing monopsonist will hire workers until $\text{MRP} = \text{MLC}$ and
   a. workers are paid a wage equal to the MRP
   b. workers are paid a wage that is less than the MRP
   c. the labor supply is equal to the MLC
   d. workers are paid the difference between MRP and MLC
   e. the labor supply is greater than MLC

7. Monopsony induces workers to organize in a union because a union can
   a. raise MRP and therefore the wage rate
   b. fix the wage rate at which labor will be offered so the MLC is constant to the monopsonist
   c. increase the labor supply dramatically
   d. provide labor of higher quality to the firm
   e. prevent nonunion workers from taking their jobs

8. A successful union facing a monopsonist can
   a. increase the wage rate above the nonunion rate and still maintain the level of employment
   b. increase the wage rate above the nonunion rate, but only at the expense of employment
   c. decrease the MRP by striking frequently and in this way increase the wage rate
   d. reduce MLC, which creates a wider gap between MLC and MRP and serves to raise wage rates
   e. survive only by accepting wage rate cuts or by allowing layoffs

9. The return to monopsony power arises because a monopsonist pays workers a wage rate that is
   a. read from the marginal labor cost curve
   b. equal to the marginal revenue product of labor
   c. less than the wage that the union bargains for
   d. read from the supply of labor curve and less than the marginal revenue product of labor
   e. high enough to give unionized workers strong incentives to be very productive
10. One difference between a perfectly competitive labor market and a monopsony labor market is that in
   a. monopsony workers are paid their MRP
   b. competitive labor markets the labor supply curve determines how much workers receive
   c. perfect competition workers are paid less than their MRP
   d. monopsony workers are paid less than their MRP
   e. perfect competition workers are paid too much to allow the firm a normal profit

11. The return to monopsony power is measured by
   a. the difference between MRP and MLC multiplied by the number of workers employed
   b. the difference between union and nonunion wage rates multiplied by the number of workers employed
   c. the price that a monopsony charges for a good and the wage rate it pays to produce it
   d. the elasticity of MRP
   e. the difference between the MRP and the wage rate of the last worker hired, multiplied by the number of workers hired

12. A craft union represents workers who
   a. are paid low wages
   b. work in a single industry regardless of their skill
   c. have the same occupation regardless of the industry
   d. are unskilled
   e. are employed in a closed shop

13. Marginal labor cost is greater than the wage rate under monopsony because
   a. the monopsonist has trouble controlling costs with little competition
   b. hiring additional workers involves raising the wage rate of those workers already hired
   c. marginal labor cost includes many new factors
   d. unions are unable to raise wage rates
   e. the revenue generated by the workers is less than the marginal labor cost

14. In the United States during the late eighteenth and early nineteenth centuries
   a. political and economic liberty favored union growth
   b. the courts denied unions legal status
   c. business regarded unions as conspiracies, but courts supported their right to organize
   d. union growth was rapid
   e. the CIÖ was the most successful union organization

15. The failure of collective bargaining will cause a union to
   a. begin a membership drive
   b. increase its wage demands
   c. go on strike
   d. increase the MRP curve
   e. form a closed shop

16. Samuel Gompers left the Knights of Labor in 1881 and formed the AFL in 1886 in order to
   a. better promote social equality and justice
   b. reap the benefits that accrue to union leaders
   c. promote strictly economic goals as a union leader
   d. form a union for industrial workers
   e. shield workers in America from foreign competition
17. The Congress of Industrial Organizations (CIO)
   a. represents specific crafts unions, such as welders, painters, and carpenters
   b. represents unions in specific regions, such as welders and painters in Oregon
   c. represents unions in specific industries, such as welders and painters in auto plants
   d. is the industries' (managements') response to union pressure to raise wage rates
   e. is designed to mediate disputes between management and unions to head off strikes that may be damaging to the nation's interest, e.g., railroad strikes or air traffic controller strikes

18. The Landrum-Griffin Act was passed in 1959 in order to
   a. protect union workers from rigged union elections and other abuses
   b. deal once and for all with the problem of closed shops
   c. close loopholes in the Norris-La Guardia Act
   d. encourage union formation in the agricultural sector
   e. pave the way for civil rights legislation in the 1960s

19. An important provision of the Wagner Act is that businesses were
   a. forced to accept union demands for higher wages
   b. forced to accept unions as legitimate institutions in collective bargaining
   c. allowed to closely monitor and dispute union elections
   d. allowed to utilize child labor with parental consent
   e. allowed to decrease employment levels as wage rates increased

20. The Taft-Hartley Act, the Landrum-Griffin Act, and the Civil Rights Act of 1964 all have in common that they
   a. outlawed certain types of unions
   b. limited the power of unions
   c. extended the power of unions
   d. placed union members on corporate boards of directors
   e. stopped businesses from discriminating against pro-union workers

The following questions relate to the applied, interdisciplinary, and global perspectives in the text.

21. The reason baseball players' salaries have risen so dramatically since the mid-1970s is
   a. the creation of an effective union for baseball players
   b. the rise in television revenues that allows owners to pay players more
   c. effective strikes by the players' union
   d. improvement in the skill levels of players, so fans are willing to pay more to seem them
   e. free agency and an end to monopsony power for the owners

22. Even a seemingly small raise, such as the 7.5 cents per hour raise that is the center of controversy in the Broadway musical, *The Pajama Game*, can
   a. be the basis for a strike
   b. result in efforts by management to break a union
   c. result in significant increases in living standards for workers over time
   d. cause a big increase in unemployment
   e. cause a big increase in employment and union membership
23. The AFL-CIO’s position regarding immigration has changed so that instead of opposing immigration, it
   a. welcomes immigrants as potential new members of the labor movement
   b. accepts immigrants as competitors with organized labor in the labor market
   c. encourages training and education programs for immigrants so they can be employed in high-skill jobs
   d. supports a guest worker program that would allow immigrants to have permanent status after six years
   e. encourages immigration by white collar workers in noncompeting labor markets

24. The push to include women in unions in recent years has succeeded to the extent that
   a. growth in union membership by women has kept the percentage of union workers growing in the 1990s
   b. the wage gap between men and women in the same job has been eliminated
   c. women are precisely 50 percent of union membership
   d. the fraction of female workers who are unionized is increasing by about 9 percent per year
   e. after-school daycare is now available to all female workers in the AFL-CIO

25. Which of the following is not an issue that would be uniquely associated with the growing number of women who are union members?
   a. family leave
   b. flexible work schedules
   c. wage equity
   d. shorter hours
   e. affordable child care

**Fill in the Blanks**

1. In a monopsonist market, the marginal labor cost curve lies above the ______________ because it includes the increase in the wages of workers already hired at ______________ wages.

2. At the profit-maximizing level of employment, the difference between the MRP and the ______________ multiplied by the level of _________________ gives the return to ________________.

3. The wage-maximizing supply curve of union labor presented to the monopsonist is ______________ at the ______________ level.

4. If new technology is adopted that shifts the demand curve for labor to the right, the union has the option of bargaining for higher ______________ at the existing level of employment or ______________ at the existing level of wages.

5. The American Federation of Labor was the organization of ______________ while the Congress of Industrial Organizations was the organization of ______________.
Discussion Questions

1. Why does the marginal labor cost curve lie above the supply curve for labor in a monopsony?

2. In what sense is labor underpaid under conditions of monopsony?

3. Frequently, the comment is made that unions create unemployment by raising wage rates. Is this always the case? Explain.

4. Outline the major pieces of legislation that have affected union behavior over time.

Problems

1. Consider the labor market depicted in the graphing tutorial. What strategy would the labor union employ if it wanted to maximize wages? Show this on the graph presented below. How do union members benefit?

2. Continuing with the same example, what strategy would a union employ if it wanted to maximize employment? Show this on the graph. How do union members benefit?
3. Explain why a union will not demand wages that are higher than the $\text{MRP} = \text{MLC}$ level.

**Everyday Applications**

Have you or any of your family or friends belonged to a labor union? What sort of activities did the union sponsor? Was the union representing workers employed by a monopsonist? Perhaps members of your family belong to professional organizations like the American Bar Association or the American Medical Association. How do unions and professional organizations differ? How are they the same?

**Economics Online**

To find out more about the sort of activities that unions pursue, visit the Web site for the United Auto Workers (http://www.uaw.org/).

**Answers to Questions**

**Key Terms Quiz**

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<tr>
<td>a. 8</td>
<td>f. 1</td>
<td>b. 3</td>
<td>g. 9</td>
<td>c. 10</td>
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</tbody>
</table>

**True-False Questions**

1. True
2. False. The monopsonist must pay a wage read from the labor supply curve.
3. True
4. False. The monopsonist will hire workers until $\text{MRP} = \text{MLC}$.
5. False. The $\text{MLC}$ is above the supply of labor.
6. False. The wage paid to the last worker hired is less than the $\text{MRP}$.
7. True
8. False. The new technology will increase the $\text{MRP}$, so the union must choose among increasing wages, increasing employment, or both.
9. False. The return to monopsony power is the difference between the marginal revenue product and the wage paid to the last worker hired, multiplied by the number of workers hired.
10. True
11. True
12. False. The workers hired may be nonunion, but they are required to join the union within a specified time period.
13. True
14. True
15. False. The AFL’s biggest concerns were increasing wages and improving working conditions.
Multiple-Choice Questions

1. c  6. b  11. e  16. c  21. e
2. b  7. b  12. c  17. c  22. c
3. c  8. a  13. b  18. a  23. a
5. d  10. d  15. c  20. b  25. d

Fill in the Blanks

1. labor supply curve; lower
2. wage; employment; monopsony power
3. horizontal; MRP = MLC
4. wages; higher employment
5. craft unions; industrial unions

Discussion Questions

1. The marginal labor cost curve lies above the labor supply curve because the monopsonist must raise the wage rate in order to attract more labor into the market and, in so doing, incurs the cost of that additional worker plus a wage rate increment that all previously hired workers receive to bring their wage rates up to that of the newly hired workers.

2. Workers are underpaid in the sense that the wage they receive is less than their marginal revenue product. The difference between the MRP and the wage rate for the last worker hired multiplied by the number of workers hired is called the return to monopsony power.

3. Unions in a monopsony market create unemployment only if they succeed in raising the wage rate above the workers’ MRP. Otherwise, they can raise wages and capture the return to monopsony power without reducing the level of employment.

4. The first two pieces of labor legislation were pro-union. The Norris-La Guardia Act of 1932 outlawed “yellow-dog” contracts, which stated that a worker was automatically fired if he or she joined a union. The Wagner Act of 1935 is often called the Magna Carta of American labor because it forced businesses to accept labor unions as legitimate institutions in collective bargaining.

After World War II, Congress passed a series of acts that limited the power of labor was passed. The first of these was the Taft-Hartley Act of 1947. This act outlawed the closed shop and prohibited unions’ unfair labor practices including pressuring workers during union elections and striking to support other unions’ strikes. Next came the Landrum-Griffin Act in 1959, also known as the Labor Management Reporting and Disclosure Act. This act forced unions to fully disclose their financial activities and sought to protect workers from rigged union elections. Union leaders were made liable for misusing union funds and were required to disclose the salaries of union officials. Finally, the Civil Rights Act of 1964 influenced union activity. The principal issue covered by this act was racial and sexual discrimination by unions; forcing unions to adopt affirmative action policies within their own ranks.

Problems

1. The union would make the marginal labor cost curve horizontal at the MRP = MLC level, which occurs at the $3,500 level. Union members benefit because the return to monopsony power that used to accrue to the monopsonist now goes to workers. The rectangle outlined by bold lines in the graph on the following page
corresponds to the gain for the union. Note that even though wages are raised, employment is left unaffected.

2. The union faces the monopsonist with a marginal labor cost curve at the wage rate $2,500 in order to maximize employment. The firm would hire 50 workers in this case. This is shown below with a bold line drawn for the MLC at the $2,500 wage and a bold line drawn down to the 50 worker level. Union members benefit from a $500 increase in their wages versus the non-union wage. Union membership also increases.

3. Two problems are encountered when a union attempts to increase wages beyond the MRP = MLC level. First, employment is reduced from the level achieved without a union. It would be bad for worker morale, to say the least, to join the union and achieve a wage increase, only to be laid off from work as a result. The other problem with raising the wage rate above the MRP = MLC level is that a larger quantity of labor will be supplied as a result. Many of these workers would be willing to work for less than the union wage. This could weaken the union’s position significantly because of competition from nonunion labor.
Homework Questions

True-False Questions — If a statement is false, explain why.

1. A monopsonist pays workers a wage that is less than the marginal revenue product of the last worker hired. (T/F)

2. The marginal labor cost curve for a monopsony lies below the labor supply curve. (T/F)

3. A union cannot successfully raise the wage rate in a monopsony labor market if it does not control the supply of labor. (T/F)

4. Labor unions have always been tolerated in the United States. (T/F)

5. The return to monopsony power is equal to the difference between the marginal revenue product of the last worker hired and the wage rate multiplied by the number of workers hired. (T/F)

Multiple-Choice Questions

1. Although a monopsony can pick the wage rate it chooses to offer, a profit-maximizing monopsonist will hire workers until
   a. the marginal revenue product is equal to the wage rate
   b. the marginal revenue product exceeds the marginal labor cost by the maximum amount possible
   c. the labor supply is exhausted
   d. the marginal revenue product is equal to the marginal labor cost
   e. enough additional workers have been hired to make a strike unlikely

2. A closed shop policy puts employers at a disadvantage compared to a union shop policy because
   a. union workers are more productive than non-union workers
   b. a closed shop cannot hire union workers
   c. a union shop can hire either union or non-union workers
   d. wages are higher in a closed shop than in a union shop
   e. closed shops experience more strikes than do union shops

3. The Wagner Act of 1935, referred to as the Magna Carta of labor, was critical to legitimizing unions in the United States because
   a. American workers were all to be represented by unions
   b. unions were subsidized by federal grants
   c. unions were involved more heavily in the management of businesses
   d. it forced businesses to negotiate with unions regarding the terms of employment
   e. it provided specific guidelines according to which better working conditions were to be provided workers
4. Given a highly elastic demand for labor in a monopsony market, a union will probably have greater success
   a. raising employment rather than wage rates
   b. raising wage rates rather than employment
   c. raising neither wage rates nor employment, but improving benefits packages
   d. making the demand for labor even more elastic
   e. opposing any technology to increase labor productivity that may reduce employment

5. Union workers resort to a strike
   a. in an effort to shift their MRP curve to the right, which allows for higher wage rates
   b. in an effort to shift their MLC curve to the right, which allows for higher wage rates
   c. to capture all or some of the return to monopsony power
   d. to reduce employment, which makes wage-rate increases easier to obtain
   e. to increase employment, enhancing union strength, which makes wage-rate increases easier to obtain

**Discussion Questions/Problems**

1. Suppose the demand for and supply of labor are both extremely elastic in a monopsony labor market. How would the high elasticities influence a union’s decision about whether to pursue a wage increase or an employment increase? Include a graph in your explanation.

2. What factors would enter into a union’s assessment of the degree of success achieved by a strike? Explain.