

Practice 5 – Introduction to Labor Economics (deadline: before next tutorial)

Answer the following questions based on what was seen during the last week.

- 1) Explain in detail what the following phrase stands for: “One classical and basic assumption of economics refers to firms as ‘price-takers’ in the product market”. Why do we do this? What does it mean? How would you rephrase the statement as to consider the labor market? Again, why should we do that? What does it mean?

- 2) What is the decision rule for employers in terms of output? What is the decision rule in terms of labor? Explain.

- 3) Why do we say that, in the short run, deciding between how much to produce or how much labor input to use are two sides of the same decision making process?

- 4) Give 3 clear (and original) examples of the law of diminishing returns.

- 5) “Zone 2” is the “production zone” because...