[Frequently Asked Questions]

Monopsony, Bilateral Monopoly and Economic Rent

Subject:	Business Economics
Course:	B. A. (Hons.), 2nd Semester, Undergraduate
Paper No. & Title:	Paper – 201 Microeconomics II
Unit No. & Title:	Unit – 2 Factor Market
Lecture No. & Title:	Lecture – 1 Monopsony, Bilateral Monopoly and Economic Rent

Frequently Asked Questions

Q1. How will a household behave in the labour market when the wage rate is above its reservation wage rate?

A1. The household will supply labor whenever the wage rate exceeds its reservation wage.

Q2. Does an increase in the supply of a factor always lower the factor's total income?

A2. Not always. The effect on the income depends on the elasticity of demand. If demand is elastic, total income rises but, if demand is inelastic, total income falls.

Q3. Whether the marginal revenue product of labor is the same as the marginal product of labor?

A3. No. The marginal revenue product of labor equals the marginal product of labor times the marginal revenue.

Q4. Whether labor demand curve of a firm is the same as its marginal revenue product of labor curve?

A4. Yes. The firm's demand curve for any factor is the same as the factor's MRP curve.

Q5. What does the labor intensity of production say?

A5. The greater the labor intensity, the larger the proportion of the costs accounted for by labor, the more elastic the demand for labor.

Q6. When income effect is larger than substitution effect what will be the shape of an individual's labor supply curve?

A6. The supply curve bends backward when the income effect — which encourages an increase in leisure and hence a reduction in the quantity of labor supplied — is larger than the substitution effect.

Q7. Whether all natural resources can be used only once and cannot be replaced?

A7. No. Only nonrenewable resources can be used only once, but renewable resources can be used any number of times or else can be replaced.

Q8. Whether rivers are renewable natural resource?

A8. Yes. Rivers can be used repeatedly, so they are renewable natural resources.

Q9. Whether economic rent is earned only on Only land?

A9. No. Any factor of production earns economic rent as long as its supply is not perfectly elastic.

Q10. For a nonrenewable natural resource, if the present value of next year's expected price exceeds this year's price, when is it profitable to sell the resource?

A10. If the present value of next year's expected price exceeds this year's price, it is more profitable to sell the resource next year, and so none of the resource would be sold this year.