[Frequently Asked Questions]

Factor Pricing

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 – 2 Factor Pricing

Frequently Asked Questions

Q1. When the supply curve of a factor shifts rightward, what will the effect on its price?

A1. An increase in the supply of a factor always lowers the factor's price

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

A3. Not always. The effect on income depends on the elasticity of demand for the factor. If the demand is elastic, total income rises but, if demand is inelastic, total income falls.

Q4. Whether the marginal revenue product of labor is the same as the marginal product of labor?

A4. No. The marginal revenue product of labor equals the marginal product of labor times the marginal revenue.

Q5. Why a firm's labor demand curve is the same as its marginal revenue product of labor curve.

A5. The MRP of labor curve shows how many workers a firm hires for any wage rate, so it is the same as the firm's demand for labor curve.

Q6. If a production process is labour intensive, what will be the elasticity of demand for labor?

A6. The greater the labor intensity, the larger the proportion of the costs accounted for by labor, the more elastic the demand for labor.

Q7. Will a household supply labour when the wage rate rises above its reservation wage rate?

A7. yes. The household supplies labor whenever wage rate exceeds its reservation wage.

Q8. Labor supply curve of an individual bends backward when the substitution effect is larger than the income effect.

A8. No, it is opposite. 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.

Q9. How will factor price behave if there is an increase in its supply?

A9. When the supply curve shifts rightward, the factor's price falls.

Q10. How does a technological change affect the demand for labour?

A10. By raising the marginal revenue product from hiring workers, the firms respond by increasing their demand for workers.