CHAPTER 15

(*ECONOMICS* CHAPTER 29)

# Resource Markets

## FUNDAMENTAL QUESTIONS

1. Who are the buyers and sellers of resources?

   In any large shopping mall, almost anything you ever would want—candy, clothing, camping equipment, computer disks, maybe even a car—seems to be for sale. And if the mall does not have what you want, the grocery store does. But there is a vast constellation of products you never see for sale at the mall: things like railroad locomotives, factory buildings, aluminum ore, and farmland. You can't go to the mall and hire a business manager, a baseball player, or a ballerina either.

   Resources like these are not bought because they create utility for consumers. Nobody buys a ton of iron ore to enjoy looking at it; instead, the demand for resources like iron ore is derived from the value of the resources to businesses, in terms of producing other products that satisfy consumer wants. Economists classify resources into three groups: land, labor, and capital. These resources are sold by households to obtain income to buy the goods and services the households want.

2. How are resource prices determined?

   Resource prices are set by the same kind of equilibrium process that we've studied for consumer markets: through the interactions of buyers and sellers. This equilibrium process determines the rate of payment for each resource and the quantity of that resource used. The payment received by a resource consists of two parts: the rate of pay needed to keep the resource in its current use, called transfer earnings, and any pay in excess of transfer earnings, called economic rent.

   The rate of pay needed to keep a resource in its current use depends on opportunity costs—how much some other buyer is willing to pay for a particular resource. For example, a very talented basketball player is worth millions to a professional basketball team, but he will not quit playing basketball if his salary is cut. Most of his salary is economic rent (nobody else can play basketball the way he does).

3. How does a firm allocate its expenditures among the various resources?

   A firm allocates its expenditures among resources in the same way that consumers allocate their incomes: so that the value per dollar is equal at the margin. Consumers get the most value from their incomes when the last dollar spent on all goods bought gives the same marginal utility. Firms are using resources efficiently when the last dollar spent gives the same marginal revenue product for all resources.

## KEY TERMS

resource market
derived demand
economic rent
transfer earnings
marginal revenue product (MRP)
marginal factor cost (MFC)
monopsonist

# QUICK-CHECK QUIZ

## Section 1: Buyers and Sellers of Resources

1. Which of the following is *not* sold in a resource market?
   a. land
   b. stocks
   c. capital
   d. labor
   e. All of the above *are* sold in resource markets.
2. The demand for resources is called a *derived demand* because it comes from
   a. the supply of resources.
   b. the marginal utility of owning a resource.
   c. what a resource can produce.
   d. consumers' needs for resources to use.
   e. how much a resource consumes.
3. Economists call the price paid for the use of land
   a. interest.
   b. proceeds.
   c. profits.
   d. rent.
   e. wages.
4. Economists call the price paid for the use of labor
   a. interest.
   b. proceeds.
   c. profits.
   d. rent.
   e. wages.
5. Economists call the price paid for the use of capital
   a. interest.
   b. proceeds.
   c. profits.
   d. rent.
   e. wages.
6. Which of the following correctly identifies the buyers and sellers of resources?
   a. Firms and households buy resources; governments sell resources.
   b. Firms buy resources; households sell resources.
   c. Governments and households buy resources; firms sell resources.
   d. Households buy resources; firms sell resources.
   e. Governments buy resources; firms and households sell resources.

## Section 2: How Firms Decide What Resources to Acquire

1. The marginal revenue product (*MRP*) is the
   a. value of the additional output that an extra unit of a resource can produce.
   b. additional cost of an additional unit of a resource.
   c. additional cost of an additional unit of output.
   d. value of the additional revenue that an extra unit of output can produce.
   e. cost of the additional output that an extra unit of a resource can produce.

2. The marginal factor cost (*MFC*) is the
   a. value of the additional output that an extra unit of a resource can produce.
   b. additional cost of an additional unit of a resource.
   c. additional cost of an additional unit of output.
   d. value of the additional revenue that an extra unit of output can produce.
   e. value of the additional input used to make an extra unit of a resource.
3. A monopsonist is
   a. the only seller of a resource.
   b. the only seller of a product.
   c. the only buyer of a resource.
   d. a firm that maximizes *MRP*.
   e. a firm that minimizes *VMP*.
4. A firm's demand curve for a resource is the
   a. firm's *MC* curve.
   b. firm's *MFC* curve.
   c. resource's *MRP* curve.
   d. resource's *MFC* curve.
   e. resource's *MC* curve.
5. To maximize profits, a firm should hire resources up to the point where
   a. $MR = MRP$.
   b. $P = MC$.
   c. $MRP = MFC$.
   d. $MRP = MC$.
   e. $MR = MFC$.

Use the information below to answers questions 6 and 7.

You are the CEO of a small company in Wichita, Recycled Materials, Inc., that buys recyclable materials from people in Wichita and sells the materials to national recyclers. You are considering expanding your operations by hiring high school students to work after school picking up discarded aluminum cans and bringing them to you for recycling.

Due to a booming market in aluminum, you can sell the cans for $.25 each. You can hire teenagers for $6.25 per hour. You figure that your only costs will be paying the teenagers; your other operations will cover your overhead.

You have estimated that the production of cans per day will be:

| Hours Worked per Day | Cans Collected |
|---|---|
| 1 | 50 |
| 2 | 90 |
| 3 | 120 |
| 4 | 140 |
| 5 | 150 |

6. How many hours of labor would you hire per day?
   a. 1
   b. 2
   c. 3
   d. 4
   e. 5

7. The government has just passed a minimum wage law requiring that everyone get paid at least $11.00 per hour. How many hours of labor would you now hire per day if you had to pay $11.00 per hour?
   a. 1
   b. 2
   c. 3
   d. 4
   e. 5

## Section 3: Resource Supplies

1. Transfer earnings are
   a. labor earnings used to support nonworking family members.
   b. the part of total earnings needed to keep a resource in its current use.
   c. earnings shifted from one resource category to another.
   d. the same as economic rent.
   e. the excess residual income earned by entrepreneurs.
2. The payment needed to keep a resource in its current use depends mostly on the
   a. resource's opportunity cost.
   b. taxes paid by the resource's owner.
   c. taxes paid by the resource's user.
   d. resource's economic rent.
   e. derived demands for other resources.
3. Economic rent is the
   a. total price paid for renting an apartment.
   b. price paid for renting an apartment minus taxes and utilities.
   c. portion of earnings above transfer earnings.
   d. difference between transfer earnings and opportunity costs.
   e. payment to residual claimants.
4. Firms buy resources with the goal of
   a. maximizing output quantity.
   b. using all resources equally.
   c. maximizing profits.
   d. providing maximum utility to consumers.
   e. minimizing costs.
5. When a resource has a perfectly inelastic supply, its pay or earnings is called
   a. transfer earnings
   b. profits
   c. marginal revenue product
   d. economic rent

# PRACTICE QUESTIONS AND PROBLEMS

## Section 1: Buyers and Sellers of Resources

1. In the table below, note the three types of resources and what each type's price is called.

| Type | Price |
|---|---|
| | |
| | |

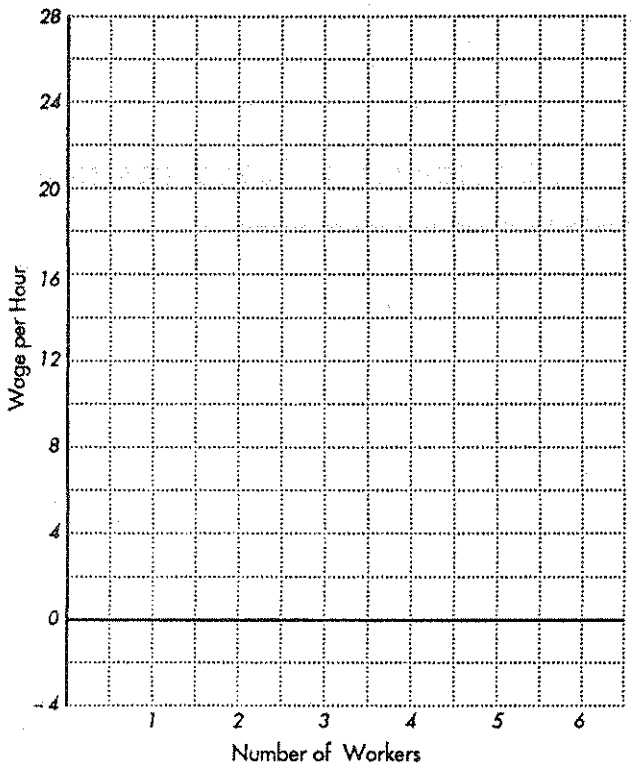
2. The buyers of resources are _____; the sellers of resources are _____.
3. _____ is the demand stemming from what a resource can produce, not the demand for the resource itself.

## Section 2: How Firms Decide What Resources to Acquire

1. The firm's demand curve for a resource is the resource's _____ curve.
2. To maximize profits, a firm should hire a resource up to the amount where _____ = _____.
3. In perfectly competitive resource markets, resources are paid an amount _____ (equal to, more than, less than) the value of their marginal product.
4. In monopsonistic resource markets, resources are paid an amount _____ (equal to, more than, less than) the value of their marginal product.
5. A firm should allocate its budget on resources so that the last dollar spent yields the same _____ no matter which resource the dollar is spent on.
6. You have decided to make some extra money and gain some real-world experience by starting your own business. You have observed that there is a good market for handwoven doormats made of recycled rope. You can get old rope for free and can use your apartment as work space. Your only costs will be for hiring other students to work on making the mats. The following table shows how many mats you can make with different numbers of workers, how much you can sell the mats for, and how much you have to pay to attract workers.

   a. Fill in all the blanks in the table. Then plot the *MRP* and *MFC* curves on the graph.

| Number of Workers | Mats per Hour | *MPP* | Price per Mat | Total Revenue | *MR* | *MRP* | Wage per Hour | Total Labor Cost | *MFC* |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 8 | _____ | $2.00 | $_____ | $_____ | $_____ | $4.00 | $_____ | $_____ |
| 2 | 19 | _____ | 2.00 | _____ | _____ | _____ | 4.00 | _____ | _____ |
| 3 | 26 | _____ | 2.00 | _____ | _____ | _____ | 4.00 | _____ | _____ |
| 4 | 30 | _____ | 2.00 | _____ | _____ | _____ | 4.00 | _____ | _____ |
| 5 | 32 | _____ | 2.00 | _____ | _____ | _____ | 4.00 | _____ | _____ |
| 6 | 33 | _____ | 2.00 | _____ | _____ | _____ | 4.00 | _____ | _____ |




b. According to the table and graph, you would want to hire _____ workers.

c. In what kind of market structure are your doormats selling? Explain your answer.

_____

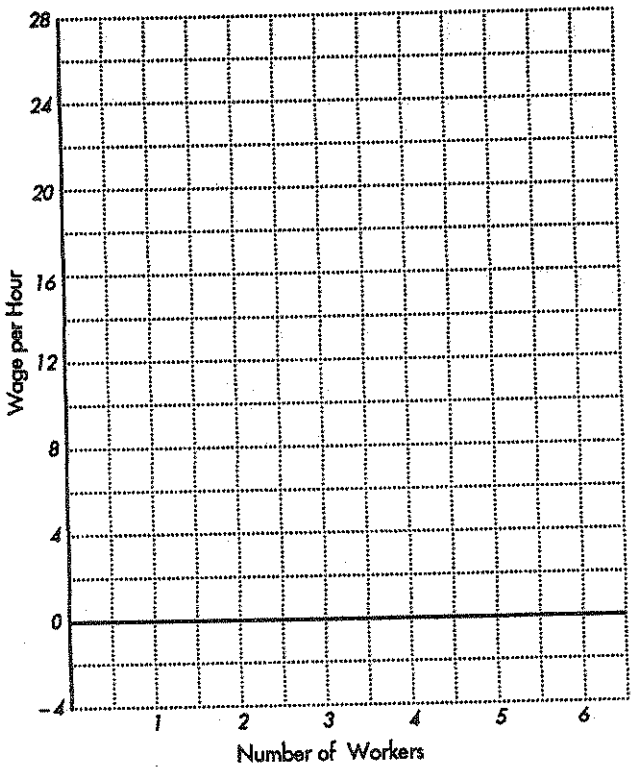
d. In what kind of market structure are you hiring workers? Explain your answer.

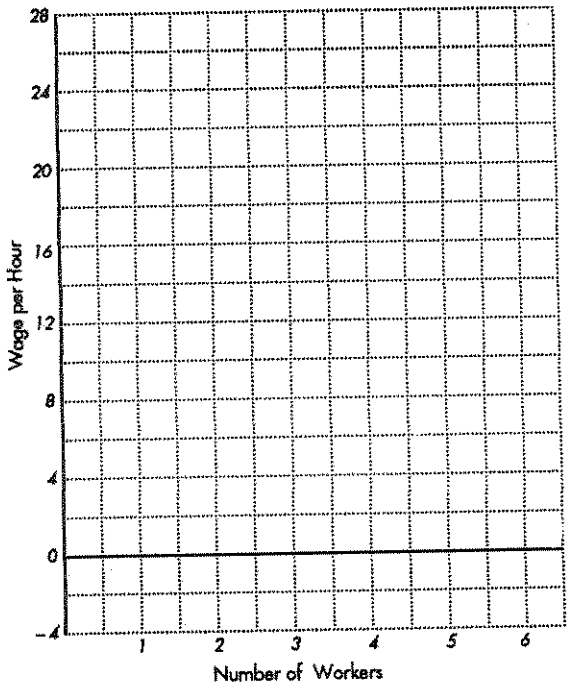
_____

7. When you started, many other students were willing to work for you. Most of those who tried weaving doormats hated the job, though, and now there are only six students in town who are willing to work for you. A few of them like the job enough to be willing to work for low wages, but you have to keep increasing your pay rate to attract more workers.

a. Refigure your labor costs and *MFC* in the table below. Then plot the *MRP* and *MFC* curves and the supply curve for your workers on the graph below. You have also managed to become a monopolist.

| Number of Workers | Mats per Hour | *MPP* | Price per Mat | Total Revenue | *MR* | *MRP* | Wage per Hour | Total Labor Cost | *MFC* |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 8 | 8 | $2.00 | $16.00 | $ 2.00 | $16.00 | $2.00 | $_____ | $_____ |
| 2 | 19 | 11 | 1.90 | 36.10 | 1.83 | 20.10 | 3.00 | _____ | _____ |
| 3 | 26 | 7 | 1.80 | 46.80 | 1.53 | 10.70 | 4.00 | _____ | _____ |
| 4 | 30 | 4 | 1.70 | 51.00 | 1.05 | 4.20 | 5.00 | _____ | _____ |
| 5 | 32 | 2 | 1.60 | 51.20 | .10 | .20 | 6.00 | _____ | _____ |
| 6 | 33 | 1 | 1.50 | 49.50 | −1.70 | −1.70 | 7.00 | _____ | _____ |




b. According to the table and graph, now you would want to hire _____ workers.

c. How can you tell from the table that you aren't hiring workers in a perfectly competitive market anymore?

_____

_____

_____

## Section 3: Resource Supplies

1. _____ is the portion of total earnings required to keep a resource in its current use.
2. _____ is earnings in excess of transfer earnings.
3. The quantity supplied of a resource _____ (increases, decreases) as the price of the resource rises.
4. Individuals sell their resources to maximize_____.
5. When the supply curve for a resource is vertical, its pay or earnings is called _____.
6. Transfer earnings are the payments to resources which have a perfectly _____ (elastic, inelastic) supply curve.

# THINKING ABOUT AND APPLYING RESOURCE MARKETS

## I. Cookies, Elves, and Economic Rent

If you've watched much television in the past few years, you've seen ads for a cookie company in which cute little cartoon elves make all the cookies. Let's take a look at elf economics.

In many ways, the elves in these commercials act like people; for example, they respond to incentives. Some elves really enjoy making cookies, so they would work for the cookie company for a low rate of pay. Other elves enjoy other things and only work for the cookie company at higher rates of pay. The following table shows the supply curve for cookie-making elves.

| Wage per Hour | Number of Elves Willing to Make Cookies |
|---|---|
| $1.00 | 1 |
| 2.00 | 2 |
| 3.00 | 3 |
| 4.00 | 4 |

1. If the wage rate for making cookies is less than $1, no elves are willing to make cookies; but a wage of $1 is enough to get one elf to be willing to make cookies.

   a. Because that $1 wage is just enough to attract that elf, what are the transfer earnings of that elf?

   _____

   b. At a wage of $1 per hour, does this elf get any economic rent? Explain your answer.

   _____

2. If the cookie company wants to hire two elves to make cookies, it has to raise the pay to $2. If the elf who already is working for $1 gets paid $2, his transfer earnings after the raise are _____, and his economic rent is _____.

3. At $2 per hour, a second elf is willing to work. When the wage rate is $2, the transfer earnings of this second elf are _____, and his economic rent is _____.

4. The cookie business is really booming, and the company needs to hire a third elf. It must pay a rate of _____ an hour to attract a third elf.

5. Assuming the wage rate is $3 per hour, note the transfer earnings and economic rent of each of the elves in the table below.

| | Transfer Earnings | Economic Rent |
|---|---|---|
| First elf | _____ | _____ |
| Second elf | _____ | _____ |
| Third elf | _____ | _____ |

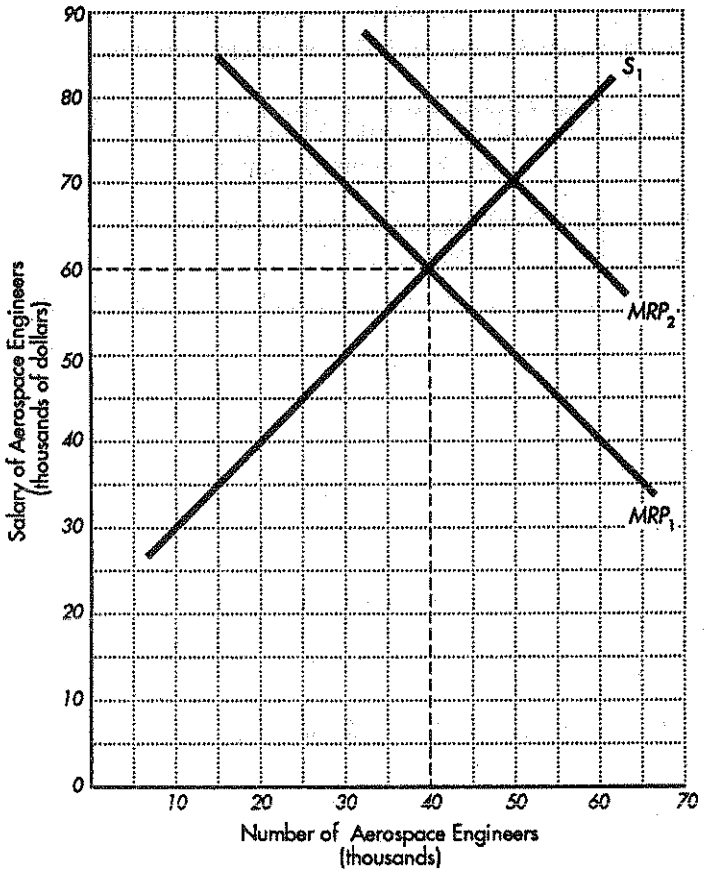
6. Why don't all of the elves have the same transfer earnings?

_____

## II. Demand and Supply for Aerospace Engineers

Aerospace engineers design airplanes and spaceships. As in most engineering areas, becoming a specialist in aerospace engineering takes several years of study even if you already are an engineer, and even longer if you are just starting out in engineering. The time it takes to train new engineers makes the market for engineers behave differently from the market for many other occupations.

Let's say that the market for aerospace engineers is shown by $MRP_1$ and $S_1$ on the graph below; salaries average $60,000 per year, and there are 40,000 aerospace engineers working. If the United States decides next year to start working on sending people to visit Mars and starts paying aerospace engineering firms to design spaceships for the trip, the *MRP* of aerospace engineers will increase to $MRP_2$.




1. The supply curve ($S_1$) on the diagram shows the long-run supply of aerospace engineers, after people have had time to become aerospace engineers. On the graph, sketch in a supply curve for aerospace engineers that shows how the number of available aerospace engineers will respond to an overnight increase in salaries. (*Hint:* Can you change the number of engineers overnight when it takes several years of study to become an aerospace engineer?)

2. The "overnight" supply curve shows that the salary that current aerospace engineers will get shortly after *MRP* shifts to $MRP_2$ is _____.

3. Of the increase in salary, _____ is transfer earnings and _____ is economic rent.

4. After there has been enough time for new aerospace engineers to enter the market, salaries will end up at $70,000, with 50,000 engineers working. Will any of these engineers still be receiving economic rent? Explain your answer.

_____

_____

_____

_____

CHAPTER 16

(*ECONOMICS* CHAPTER 30)

# The Labor Market

## FUNDAMENTAL QUESTIONS

1. Are people willing to work more for higher wages?

   Most people work to earn money to spend when they're not working. Even for people who really enjoy their jobs, the size of the paycheck affects how much they are willing to work. For individual workers, a higher wage rate has two effects: It encourages them to work more hours, but it also lets them enjoy more leisure time without lowering their standard of living. When wage rates get high enough, most people cut back the hours they work and take more leisure time, producing a **backward-bending labor supply curve.**

2. What are compensating wage differentials?

   The supply of and demand for different labor markets determine the wage and the number of people employed in those markets. If people and jobs were like wheat, there would be only one wage rate. But people and jobs differ, so wages are not all the same. **Compensating wage differentials** exist when differences in job characteristics result in wage differences. Economists are paid more than fast-food workers partly because much more education is required before one can become an economist.

3. What is the impact of technological change and the New Economy on workers?

   The term **New Economy** refers to changes in information technology and knowledge transmission. These changes have increased the demand for workers with computer skills and decreased the demand for unskilled workers. As a result, incomes for skilled workers have been increasing much more rapidly than incomes for unskilled workers.

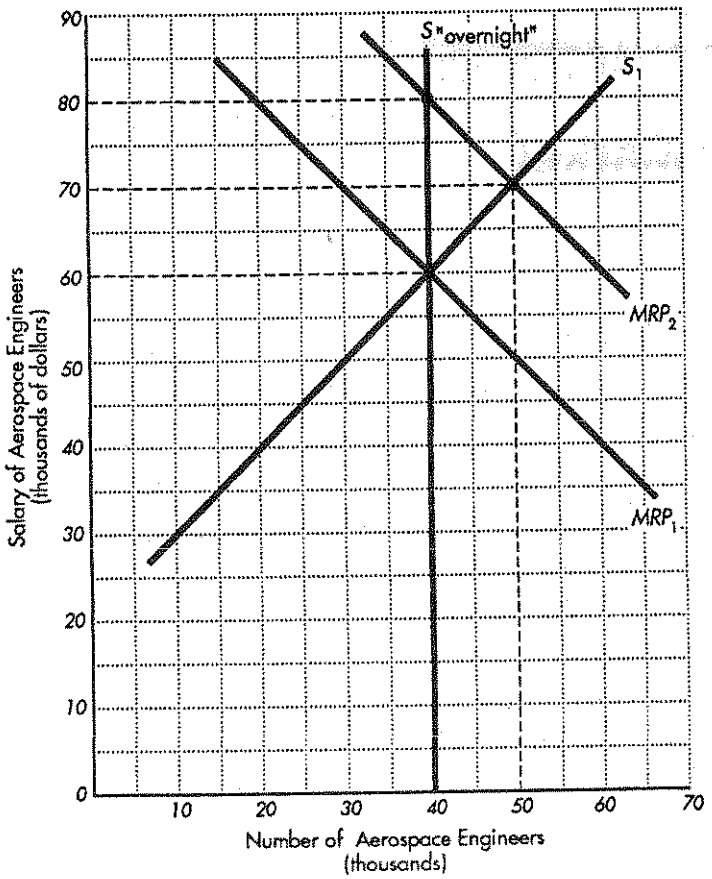
4. What is offshoring?

   **Offshoring** refers to moving jobs to another country to take advantage of lower labor costs. With the development of the Internet and related computer products, it is now much easier to transfer information across national borders. As a result, offshoring has been increasing as U.S. firms move some information-related jobs to other countries.

5. What is the impact of a minimum wage law on unskilled labor?

   An effective minimum wage law, one that sets the minimum wage higher than the market equilibrium wage for some type of labor, both discourages employers from hiring as many workers, and encourages more workers to enter the labor market. The result is a decrease in employment in that labor market, and a surplus of unemployed workers. Unskilled workers typically are paid lower wages than skilled workers, and are more likely to be affected by minimum wages laws.

## II. Demand and Supply for Aerospace Engineers




1. The "overnight" supply of aerospace engineers is perfectly inelastic (a vertical line) because the number of engineers cannot change at all in that short a time.

2. $80,000

3. zero; $20,000 (All of the increase is economic rent for the aerospace engineers currently in the market. They all were willing to work for $60,000, so any payment to them over $60,000 is all economic rent.)

4. Almost all of these engineers are receiving some economic rent; most of the additional 10,000 engineers would have been willing to become aerospace engineers for a salary between $60,000 and $70,000. Only those few engineers who would have chosen a different job if the salary were anything less than $70,000 receive no economic rent.

6. What is the effect of illegal immigration on the economy?

   Illegal immigrants to the United States are typically unskilled workers, so their presence in the United States increases the supply of unskilled workers, resulting in lower wages for some unskilled U.S. citizens. These lower wages result in lower costs to employers of illegal immigrants, and lower prices for U.S. consumers for the goods and services produced by illegal immigrants.

7. Are discrimination and freely functioning markets compatible?

   In a freely functioning labor market, **discrimination** should not exist: There is a profit to be made in *not* discriminating. Of course, discrimination does exist. One source of labor market discrimination is employers' personal prejudice. Hiring people on the basis of personal prejudice adds to employers' costs and is not compatible with free markets. A second source, **statistical discrimination,** is a way of dealing with a lack of information: Employers wrongly perceive that all members of a group have characteristics that make them less productive. Statistical discrimination can lead to **crowding** and **occupational segregation.**

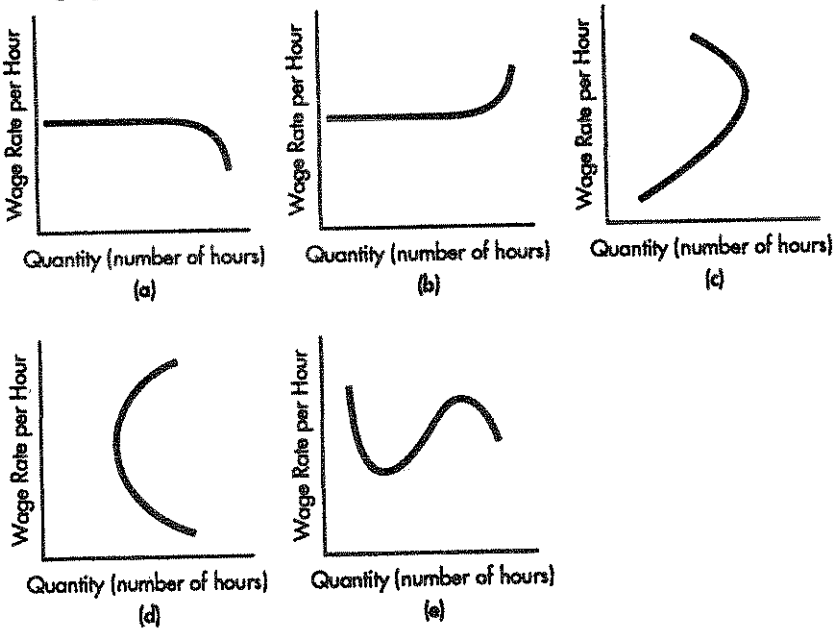
## KEY TERMS

backward-bending labor supply curve
compensating wage differentials
human capital
offshoring
outsourcing
discrimination
statistical discrimination
crowding
occupational segregation
disparate treatment
disparate impact
comparable worth
New Economy
knowledge economy

## QUICK-CHECK QUIZ

### Section 1: The Supply of Labor

1. Which of these graphs shows a backward-bending supply curve for labor?



2. As wage rates increase in the economy, labor force participation
   a. is unaffected.
   b. increases.
   c. decreases at a steady rate.
   d. decreases at first and then increases.
   e. decreases slowly at first and then decreases more rapidly.

## Section 2: Wage Differentials

1. Wage differences that make up for higher-risk or poor working conditions among different jobs are called
   a. human capital.
   b. disparate treatment.
   c. labor force participation differentials.
   d. compensating wage differentials.
   e. affirmative action plans.
2. Skills and training acquired through education and on-the-job training are called
   a. disparate treatment.
   b. labor force participation differentials.
   c. human capital.
   d. compensating wage differentials.
   e. affirmative action plans.
3. Suppose people in occupation A make twice as much money as people in occupation Z. Which of the following could be an economic explanation of the wage differential?
   a. Workers in occupation Z have a higher risk of on-the-job injuries.
   b. Workers in occupation A have more human capital.
   c. Workers in occupation Z have more human capital.
   d. The beginning of the alphabet always wins.
   e. Workers in occupation Z receive a compensating wage differential.
4. Which of the following correctly describes the effects of an effective minimum wage law in competitive labor markets?
   a. Higher wages for all workers
   b. Higher wages for those working but fewer jobs
   c. Lower wages for those working but more jobs
   d. Lower wages for those working and fewer jobs
   e. Higher wages for those working and more jobs
5. Which group is most likely to lose jobs as a result of an increase in the minimum wage?
   a. Teenagers
   b. Workers 20–30 years old
   c. Workers 30–40 years old
   d. Workers 40–50 years old
   e. The impacts of minimum wage increases do not vary by age.

## Section 3: Immigration

1. Which of the following statements is true?
   a. Immigration to the United States has always been restricted.
   b. The flow of immigrants has gone up and down over the years.
   c. Most of the people from Mexico who cross the border are illegal immigrants.
   d. The United States currently allows only about 20,000 legal immigrants every year.
   e. Only low-skilled workers can legally immigrate into the United States.
2. Illegal immigrants
   a. increase the supply of low-skilled labor and increase the wage rate.
   b. increase the supply of low-skilled labor and decrease the wage rate.
   c. increase the demand for low-skilled labor and increase the wage rate.
   d. increase the demand for low-skilled labor and decrease the wage rate.
   e. decrease the demand for low-skilled labor and decrease the wage rate.
3. As a result of illegal immigration, U.S. citizens
   a. pay higher prices for goods and services produced by illegal immigrants.
   b. pay higher taxes since illegal immigrants don't pay any taxes.
   c. lose jobs and have no chance to get other jobs.
   d. pay lower prices for goods and services produced by illegal immigrants.
   e. pay lower taxes because illegal immigrants are required to pay extra taxes.

## Section 4: Discrimination

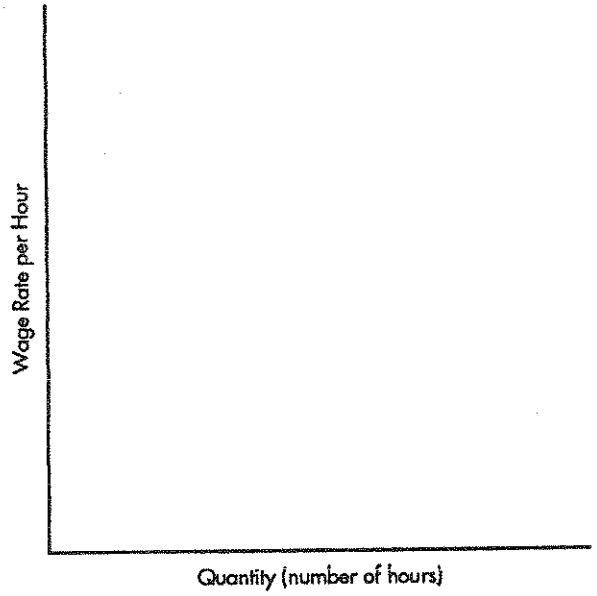
1. When factors not related to workers' marginal productivity affect workers' value in the labor market,
   a. compensating wage differentials do not exist.
   b. discrimination is occurring.
   c. the labor supply curve does not bend backward.
   d. labor force participation is high.
   e. labor force participation is low.
2. Which of the following factors is *not* a reason why different groups receive different wages in the United States today?
   a. personal prejudice
   b. differences in education and training
   c. statistical discrimination
   d. unequal opportunities to acquire human capital
   e. All of the above are reasons why different groups receive different wages.
3. Statistical discrimination can occur when
   a. wages are based on individual workers' actual marginal productivity.
   b. employers base wage decisions on personal prejudice.
   c. employers with imperfect information about people's productivity rely on incorrect assumptions to set wages.
   d. occupational segregation causes labor market crowding.
   e. the immigration of unskilled people lowers the wages for all unskilled workers.

4. If you observe that people with orange-colored eyes work in different occupations than do people with gray eyes, your economic knowledge should lead you to conclude that
   a. people with gray eyes have more children than do people with orange eyes.
   b. employers only want to hire people with orange eyes.
   c. either employer discrimination has forced people into different occupations or people with gray eyes have different human capital than people with orange eyes.
   d. employer discrimination exists.
   e. there are differences in human capital between people with orange eyes and people with gray eyes.
5. Comparable worth is the idea that pay should be based on
   a. supply and demand for different types of labor.
   b. only the supply side of the labor market.
   c. the characteristics of the job.
   d. the degree of occupational segregation in a labor market.
   e. the percentage of jobs filled by minorities.
6. In legal terms, the disparate treatment standard judges employers on
   a. whether they personally are prejudiced against certain groups.
   b. whether their employment policies are intended to discriminate against certain groups.
   c. whether their employment policies affect different groups differently, regardless of the employers' intentions.
   d. the degree of occupational segregation within their firms.
   e. whether their affirmative action plans are written properly.
7. In legal terms, the disparate impact standard judges employers on
   a. whether they personally are prejudiced against certain groups.
   b. whether their employment policies are intended to discriminate against certain groups.
   c. whether their employment policies affect different groups differently, regardless of the employers' intentions.
   d. the degree of occupational segregation within their firms.
   e. whether their affirmative action plans are written properly.

# PRACTICE QUESTIONS AND PROBLEMS

## Section 1: The Supply of Labor

1. Sketch a backward-bending labor supply curve on the graph below.




2. In the overall labor market, as wages increase, labor force _____ also increases.
3. In any labor market, the wage rate and number of jobs depend on the _____ and _____ curves for labor.

## Section 2: Wage Differentials

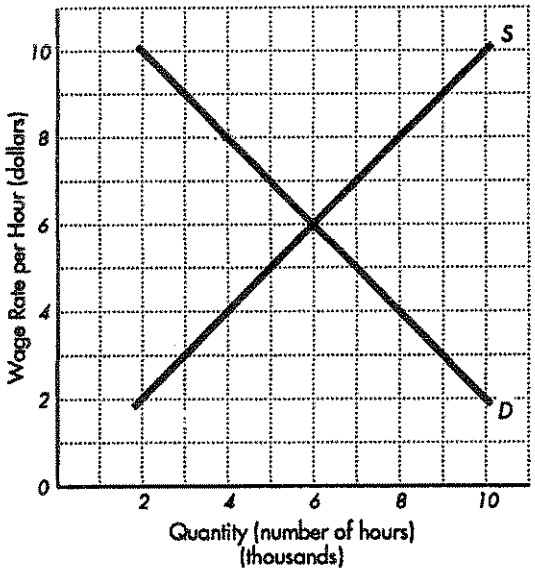
1. Employers must pay _____ to get people to do unpleasant or dangerous jobs.
2. _____ is the skills and training acquired through education and on-the-job training.
3. In 2005, skilled workers earned on average _____ times as much as unskilled workers.
4. Higher opportunity costs for acquiring the human capital needed for a job result in _____ (larger, smaller) numbers of people in that occupation, leading to wages that are _____ (higher, lower) than those for other jobs.
5. Purchasing goods or services from another firm, rather using a firm's own employees to produce the goods or services, is called _____. When the other firm is located in a different country, it is called _____.
6. The phrase *New Economy* refers to technological developments in the 1990s related to improved ways to manage and use _____. The New Economy is sometimes called the _____ Economy.
7. When a U.S. firm hires companies in other countries to provide goods and services, the U.S. firm's costs_____ (increase, decrease), thereby_____ (raising, lowering) the price it can charge for its products. This allows U.S. consumers to spend_____ (more, less) money buying other goods and services, which creates_____ (fewer, more) jobs in the United States.

## Section 3: Immigration

1. The percentage of the U.S. population born outside the United States is _____ (higher, lower) today than it was 100 years ago.
2. People generally leave their home country and move to another country to gain a _____ (lower, higher) quality of life.
3. Before 1950, immigration to the United States was primarily from the continent of _____; since then it's mostly from _____ and _____.
4. Illegal immigrants are usually _____ (unskilled, highly skilled) workers.
5. As a result of illegal immigration, low-skilled U.S.-born workers have _____ (higher, lower) wages and _____ (more, fewer) jobs.
6. Illegal immigration has resulted in _____ (higher, lower) prices for U.S. consumers.
7. Most studies show that the first generation of illegal immigrants _____ (impose net costs on, provide net benefits to) the rest of society; later generations _____ (impose net costs on, provide net benefits to) the rest of society.

## Section 4: Discrimination

1. Job market discrimination occurs when wages are based on anything besides workers' _____.
2. Discrimination based on personal prejudice is usually _____ (costly, profitable) for a firm.
3. _____ discrimination can occur when employers use indicators of group performance that do not accurately reflect the productivity of individual workers.
4. The graph below shows the equilibrium wage rate and number of jobs in a labor market where half the supply of workers are male and half are female.




   a. If employers' prejudices lead them to refuse to hire women, they will end up paying a wage rate of _____ per hour. (*Hint:* If women are not hired, they are not part of the supply as far as the employers in the market are concerned, so draw in the supply curve for men to find the wage.)