Unit 5.4 Monopsonistic Markets

AP Microeconomics Homework

Question Bank

1. Question Bank Q36

A monopsonistic labor market has a

(A) single employer of labor

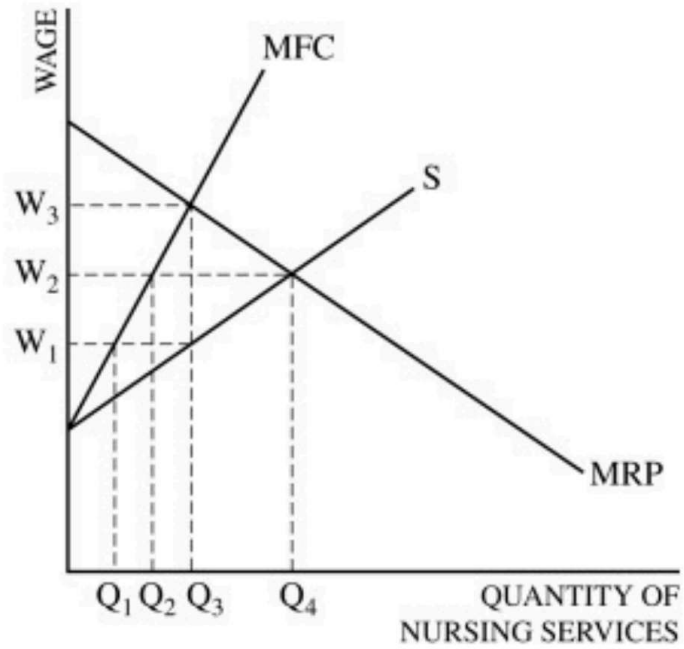
(B) horizontal labor supply curve

(C) labor force of identically skilled workers

(D) backward bending labor supply curve

(E) demand curve for labor that is perfectly elastic

2. Question Bank Q56



Hope Hospital is a monopsonistic employer of nurses. The marginal revenue product of nursing services, the marginal factor (resource) cost of nursing services, and the market supply curve of nursing services are depicted in the figure above by MRP, MFC, and S, respectively. What wage quantity combination does Hope Hospital choose in order to maximize its profits?

(A) W_1 and Q_1

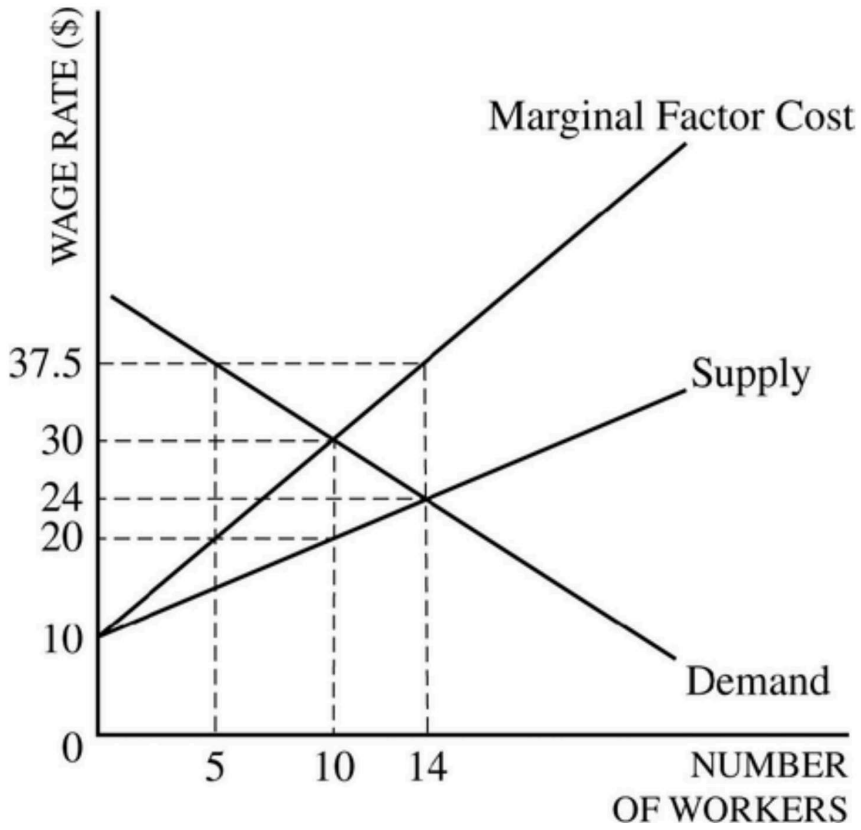
(B) W_1 and Q_3

(C) W_2 and Q_2

(D) W_2 and Q_4

(E) W_3 and Q_3

3. Question Bank Q65



The graph above shows the conditions that a monopsonist faces in a labor market. How many workers would this monopsonist hire and what wage rate would it pay?

	Number of Workers	Wage Rate
(A)	5	$37.50
(B)	10	$30
(C)	10	$20
(D)	14	$24
(E)	14	$37.50

4. Question Bank Q76

Assuming a single, profit-maximizing employer in a labor market with many workers, which of the following statements relating to this monopsony is true?

(A) This single employer will hire more labor than if the market were perfectly competitive but will pay a lower wage.

(B) This single employer is a wage taker, needing to pay the equilibrium wage for the geographic area.

(C) In increasing employment, the marginal factor cost of an additional unit of labor exceeds the wage rate paid to the laborer.

(D) The profit-maximizing monopsonist will hire the quantity of labor where the marginal revenue product of labor intersects the labor supply curve.

(E) The first workers hired are paid a higher wage than any additional workers hired by the monopsonist.

5. Question Bank Q77

Which of the following is true of a monopsony in a labor market?

(A) It faces a labor supply curve that is horizontal at the competitive market equilibrium wage.

(B) Its marginal factor (resource) cost is the same as the market supply curve.

(C) At its optimal level of employment, it pays a wage rate higher than the competitive market wage rate.

(D) The imposition of a minimum wage results in a larger reduction in employment than is true in a competitive market.

(E) Its marginal factor (resource) cost curve lies above the labor supply curve because hiring an extra worker means paying more to existing workers.

6. Question Bank Q80

The monopsonist’s marginal factor (resource) cost curve for labor is

(A) above the labor supply curve because the product price is found on the demand curve above where marginal cost equals marginal revenue

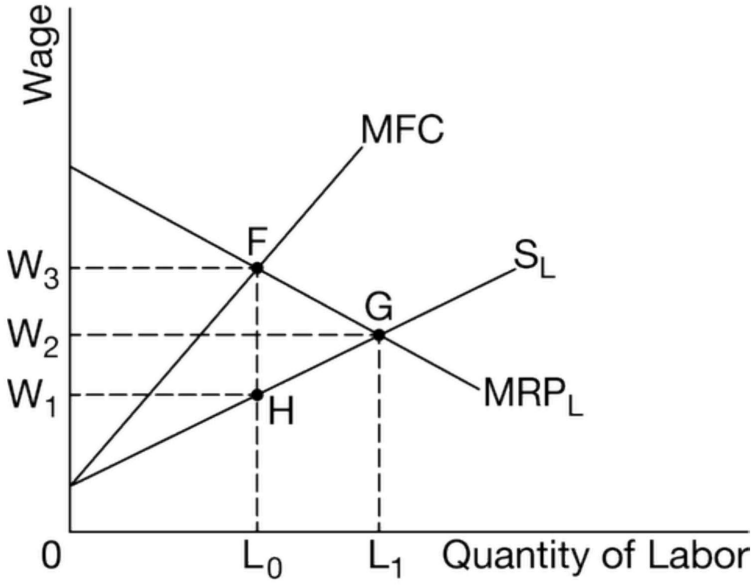
(B) above the labor supply curve because to hire more workers the firm must raise the wage for all workers

(C) below the labor supply curve because the firm is a wage taker

(D) below the labor supply curve because of diminishing marginal returns to labor

(E) below the labor supply curve because to sell additional units of output the firm must lower its product price

7. Question Bank Q81



Which of the following statements about the monopsonistic labor market shown in the accompanying graph is true?

(A) The single firm will hire L_1 and pay each laborer a wage of W_2.

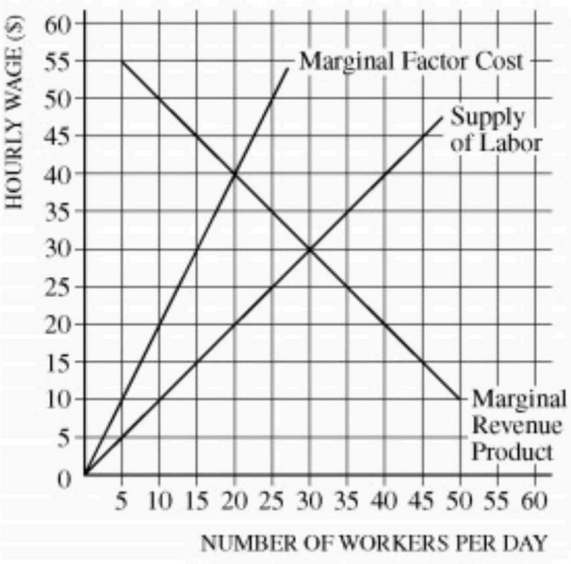
(B) In this monopsonistic labor market when the single employer maximizes economic profits, there will be no deadweight loss.

(C) The profit-maximizing monopsonist will hire L_0 labor and pay each laborer W_1.

(D) When the single firm is maximizing profits, the marginal revenue product (MRP) of labor will exceed the marginal factor cost (MFC) of labor.

(E) The marginal factor cost (MFC) of labor with the competitive equilibrium exceeds the marginal factor cost of labor in monopsony.

8. Question Bank Q82



The graph above shows a monopsony labor market. In the absence of any regulations, which of the following represents the number of workers the firm will hire and the wage rate it will offer to those workers?

	Number of Workers	Wage Rate
(A)	15	$30
(B)	20	$20
(C)	20	$40
(D)	30	$30
(E)	40	$40

9. Question Bank Q83

In a monopsonistic labor market, a firm will continue to hire workers until the marginal revenue product of labor

(A) equals marginal factor (resource) cost, resulting in more workers being hired at a lower wage compared with a perfectly competitive labor market

(B) equals marginal factor (resource) cost, resulting in fewer workers being hired at a lower wage compared with a perfectly competitive labor market

(C) equals marginal factor (resource) cost, resulting in fewer workers being hired at a higher wage compared with a perfectly competitive labor market

(D) is less than marginal factor (resource) cost, resulting in more workers being hired at a lower wage compared with a perfectly competitive labor market

(E) is less than marginal factor (resource) cost, resulting in fewer workers being hired at a lower wage compared with a perfectly competitive labor market

10. Question Bank Q84

Which of the following is always true for a firm with monopsony power?

(A) The marginal revenue product curve is upward-sloping.

(B) The marginal revenue product curve lies above the input demand curve.

(C) The marginal factor cost curve lies above the input supply curve.

(D) The marginal factor cost curve lies above the input demand curve.

(E) The input demand curve lies above the marginal factor cost curve.

11. Question Bank Q99

Which of the following statements about a monopsonistic labor market is true?

(A) Compared to the wage paid in a competitive labor market, the wage paid by a monopsonist is lower and the quantity of labor hired is lower.

(B) Since the single firm is a wage taker, the marginal factor cost of labor is equal to the wage rate.

(C) Since marginal revenue product equals marginal factor cost, this labor market is efficient with no deadweight loss.

(D) A legal minimum wage equal to the competitive wage would further reduce the employment of labor.

(E) As the firm hires more labor, the firm is able to pay each unit of labor a lower wage.

MCQ — Past Exam Questions

12. 2021 AP Micro MCQ Q18

A monopsonistic labor market has a

(A) single employer of labor

(B) horizontal labor supply curve

(C) labor force of identically skilled workers

(D) backward bending labor supply curve

(E) demand curve for labor that is perfectly elastic

13. 2022 AP Micro MCQ Q34

Which of the following explains why the marginal factor (resource) cost curve lies above the supply curve for labor in a monopsonistic labor market?

(A) The monopsonist must lower its price to sell more output.

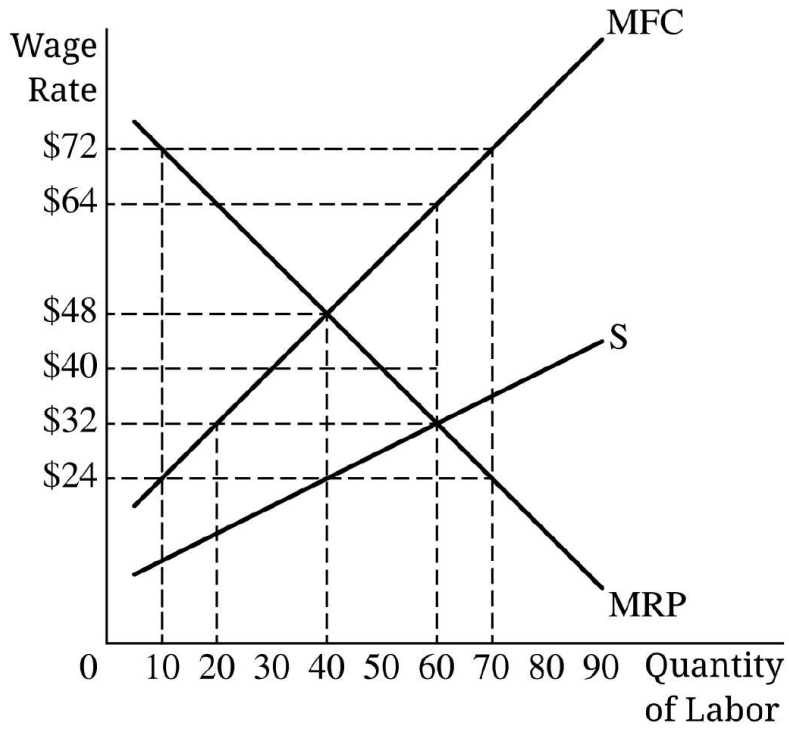
(B) Each worker is paid a different wage, based on individual marginal productivity.

(C) The monopsonist has market power and pays whatever wage it desires.

(D) The supply of labor is perfectly elastic.

(E) The monopsonist must increase the wage for all workers to hire more workers.

14. 2023 AP Micro MCQ Q18



FishNets hires workers from the labor market depicted in the provided graph. The government imposes a binding minimum wage in the labor market. What is the binding minimum wage that would cause FishNets to hire the same number of workers as a perfectly competitive labor market?

(A) $24

(B) $32

(C) $40

(D) $48

(E) $64

15. 2023 AP Micro MCQ Q43

Which of the following is true at the quantity of labor hired by a profit-maximizing monopsonist?

(A) Marginal revenue product is less than marginal factor cost.

(B) Marginal revenue product is greater than marginal factor cost.

(C) Marginal revenue product is less than the market wage.

(D) Marginal revenue product is greater than the market wage.

(E) Marginal revenue product equals the market wage.

16. 2024 AP Micro MCQ Q25

Which of the following is true of a monopsonist?

(A) A monopsonist controls the product market and pays the same wage rate to all workers.

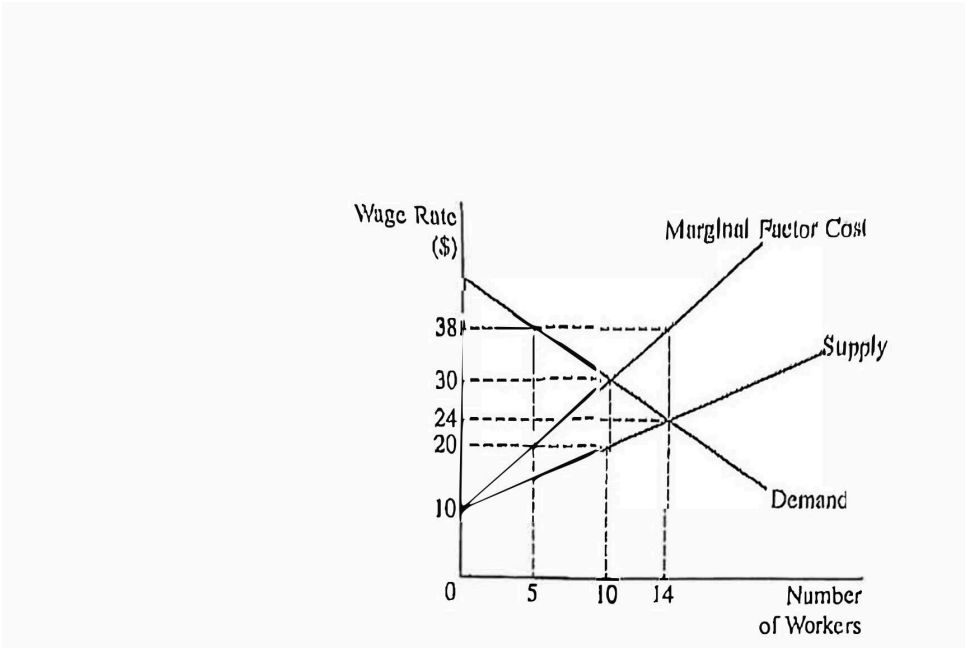
(B) A monopsonist needs to offer a higher wage to attract additional workers.

(C) A monopsonist produces goods that are sold only in imperfectly competitive product markets.

(D) A monopsonist can charge higher prices for a product it sells without losing all its customers.

(E) If a monopsonist decreases the wage rate paid to its workers, the firm will lose all its workers to competing employers.

17. 2024 AP Micro MCQ Q41



In the graph provided, what is the profit-maximizing number of workers for the monopsonist and what wage will the monopsonist pay?

(A) The number of workers is 5 and the wage rate is $38.

(B) The number of workers is 10 and the wage rate is $20.

(C) The number of workers is 10 and the wage rate is $30.

(D) The number of workers is 14 and the wage rate is $24.

(E) The number of workers is 14 and the wage rate is $38.

18. 2025 AP Micro MCQ Q43

The table shows output and cost data for Whit's Whistles, a firm that produces whistles.

Number of Workers	Total Output	Marginal Factor Cost ($)
1	16	35
2	35	65
3	51	95
4	69	125
5	77	155

Whit's Whistles is a profit-maximizing firm that hires workers from a monopsonistic labor market. The market for whistles is perfectly competitive, and the equilibrium price of whistles is $10. How many workers will Whit's Whistles hire to maximize profits?

(A) 1

(B) 2

(C) 3

(D) 4

(E) 5

19. 2025 AP Micro MCQ Q60

The small town of Marketville had four firms producing coal. The four firms then merged into one firm, which is now the sole employer of coal miners in Marketville. What effect will this change have on the market for coal miners in Marketville?

(A) Equilibrium wages and the level of employment will both increase.

(B) Equilibrium wages will increase, and the level of employment will decrease.

(C) Equilibrium wages and the level of employment will both decrease.

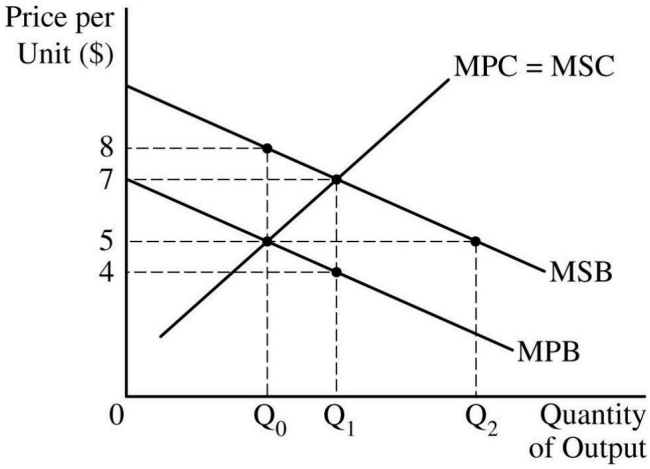
(D) Equilibrium wages will decrease, and the level of employment will increase.

(E) Equilibrium wages will decrease, and the level of employment will remain the same.

FRQ — Past Exam Questions

20. 2022 AP Micro FRQ Q2

Bueno is a firm that produces and sells guava, a type of fruit. The market for guava is perfectly competitive. The marginal private benefit (MPB), marginal private cost (MPC), marginal social benefit (MSB), and marginal social cost (MSC) curves are illustrated in the graph provided.



(a) Identify the kind of market failure represented by this graph.

(b) Using numbers from the graph, identify the marginal external benefit.

(c) Assume the guava market is in short-run equilibrium and Bueno hires workers in a perfectly competitive labor market at a wage of $20 per hour. The marginal product of the last worker hired was 6 units of guava per hour.

(i) Calculate the change in Bueno's profit per hour from the last worker hired. Show your work.

(ii) Suppose that the government decides to provide a per-unit subsidy to consumers who buy guava. How would the per-unit subsidy affect Bueno's marginal revenue product curve? Explain.

(d) Instead of hiring workers in a perfectly competitive labor market, assume Bueno hires workers in a monopsony labor market. Will the number of workers hired increase, decrease, or stay the same? Explain.