

EC107

Economics 1

Term 1

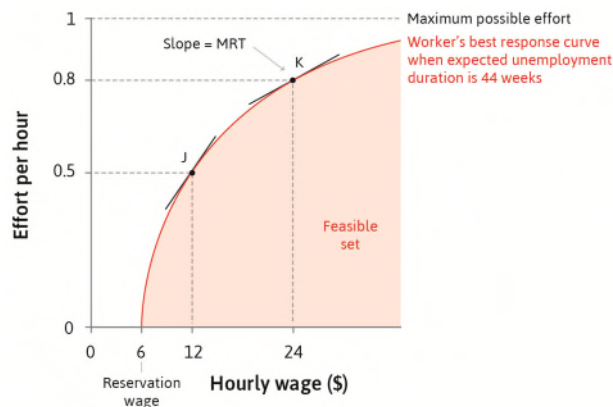
In-Class Questions

Week 7 Support and Feedback Class

Unit 6

The Firm; Owners, Managers & Employees

**In-Q6.1:** Consider the diagram below.



- (i) Explain what the worker's best response curve shows.
- (ii) From the point of view of the firm, what is the feasible set whose frontier is associated with the worker's best response curve?
- (iii) What determines the firm's optimising wage-effort combination on the feasible frontier?
- (iv) At the firm's chosen wage-effort combination, what can you say about the efficiency wage the firm is paying relative to the worker's reservation wage?
- (v) What is the impact of an increase in the level of unemployment in the economy of the worker's best response curve and, consequently, on the firm's profit-maximising choice of the wage and the effort level?
- (vi) Suppose that other firms in the same labour market raise their wages. What is the likely impact on the worker's best response curve and, consequently, on the firm's profit-maximising choice of the wage and the effort level?

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**In-Q6.2:** (i) What is meant by Involuntary Unemployment? (ii) Why is involuntary unemployment an implication of the labour discipline model?

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Following your Class meeting of Week 7, you should ensure that you are able independently to be able to produce clear and comprehensive answers to these questions. To support you further in this, you should use all the resources available to you on the module, including:

Lecture Videos and Slides; the online textbook CORE: The Economy; the peer-support Forum for Unit 6; the Feedback on In-Class Questions for Unit 6; the FAQs resource. All of these resources are clearly linked on the module Moodle page.

Professor Robin Naylor