

<p>Contrast the roles of individuals and firms in the factor market and in the product market. Give an example of each of these kinds of markets.</p>	<p>Factor Market: individuals come with their share of the social endowment in the form of factors of production they own and can supply like labor, production capital, and natural resources. Firms demand these factors ex- a factory is looking for workers so individuals get jobs and give their endowment; Product Market: individuals demand the products and firms supply the products ex- individuals are looking for shoes so firms produce and therefore supply them</p>
<p>Describe the relationship between factor markets and individuals' incomes.</p>	<p>The prices firms pay for the factors that the individuals have in the factor market determine the income of those who bring their factor to the market; distribution of income is determined in the factor market</p>
<p>Define natural resources and labor. Give an example of each.</p>	<p>Natural resources: gifts of nature that come from in, around, or on the Earth, they are finite. Example-wind, water, plants Labor: the natural power humans have to exert themselves, raw human capacity for productive exertion. Example-ability to wash a car or lift bags of soil and move them</p>
<p>Define capital. Distinguish between physical and human capital. Give an example of each. Distinguish between production and financial capital.</p>	<p>Capital: produced mean of production; not a gift of nature, we must produce it Physical capital: embodied in a tool that makes us more productive, like a spear or hammer Human capital: embodied in ourselves and makes us more productive, like education Production capital: a produced mean of production, helps in means of production Financial capital: money</p>
<p>Define process of production.</p>	<p>Using the factors together to actually make a good or service or capital, this occurs after factors are allocated</p>
<p>Explain the concept: allocation of a factor.</p>	<p>Deciding how to use a factor/ to decide where to produce</p>
<p>Define technique and technology. Describe the relationship between these concepts.</p>	<p>Technique: all the possible ways to produce something Technology: the set of available techniques Technology is like the book of blueprints for production processes, and techniques are the pages of that book</p>

<p>Compare labor intensive and capital intensive techniques. Explain how a choice is made among techniques when technology offers an array of more labor or more capital intensive techniques.</p>	<p>Labor intensive: techniques that use relatively more labor than capital Capital intensive: techniques that use relatively more capital than labor Ex: digger a hole is more labor intensive while using a backhoe to dig is more capital intensive The choice between the two is based on the relative costs of labor and capital. For ex, in Haiti, labor is cheaper than capital intensive techniques, while the vice versa is true in the US</p>
<p>Specify the arrangement of these terms as they are used in our model: factors, allocated, process of production, techniques, technology, goods and services.</p>	<p>Factors of production are allocated in the process of production. The process of production utilizes techniques through technology to make goods and services.</p>
<p>Describe what an excess supply in a labor market would look like in real human terms.</p>	<p>An excess supplied means the quantity supplied is greater than the quantity demanded, so more people are looking for jobs in that market than there are jobs available. As a result, there would be some unemployed workers. The wages would fall as a result of employers bidding for workers. The bidding and falling price would continue until the excess supply was eliminated and the market reaches equilibrium.</p>
<p>Using an appropriate graph, explain how, given our nice assumptions, a labor market will adjust from an initial excess supply condition. (slides, pg 107, notes</p>	
<p>Using an appropriate graph, explain how, given our nice assumptions, a labor market will adjust from an initial excess demand condition. (slides, pg 107, notes)</p>	

<p>Explain why the supply curve for a factor would slope upward.</p>	<p>The quantity of a factor supplied and the price of that factor are positively related; this is due to the relationship between quantity of a factor supplied and opportunity cost; every resource has alternative uses so using a resource in a particular market means losing the opportunity to use it in another market; the more use of factors there are, the more one must be compensated</p>
<p>Write the factor supply relationship in functional form. Identify the shift variables in the factor supply relationship.</p>	<p>$Q_f^S = S(p_f W, Pref., Alt.)$ Q_f^S: quantity of the factor supplied W: Wealth Pref: Preferences Alt: Alternative opportunities</p>
<p>Identify the sources of market labor supply shifts.</p>	<p>Wealth: the more wealth there is, people don't need to work as much so supply shifts left Preferences: preference change may change one's attitude toward supplying in the factor market Alternative opportunities: ex-more doctor jobs available for women so supply of doctors shifts right and nurses would shift left</p>
<p>Explain the following statement: if nurses' pay did not include an interest as well as a wage component, there would eventually be no nurses.</p>	<p>If there was not a significant return to the educational investment necessary to become a nurse, no one would make that investment in his or her human capital.</p>
<p>Explain the concept: sunk costs.</p>	<p>Costs already paid for choices made</p>
<p>Describe the role of sunk costs in decision making. Give an example.</p>	<p>Sunk costs of past choices are best left in the past. If the path down which those investments led is no longer the most satisfying, it makes no sense to follow that path simply because you can't get resources into it. Current choices are about the future, and they are most constructive if the decision is based on lessons of the past and on future costs and future benefits.</p>
<p>Identify the level of return all participants in the factor markets can expect under our nice assumptions.</p>	<p>Comparable occupations have comparable wages, making changing jobs useless. They are comparable occupations because they have similar requirements in terms of human capital investment, etc; normal return because no one has an advantage</p>