

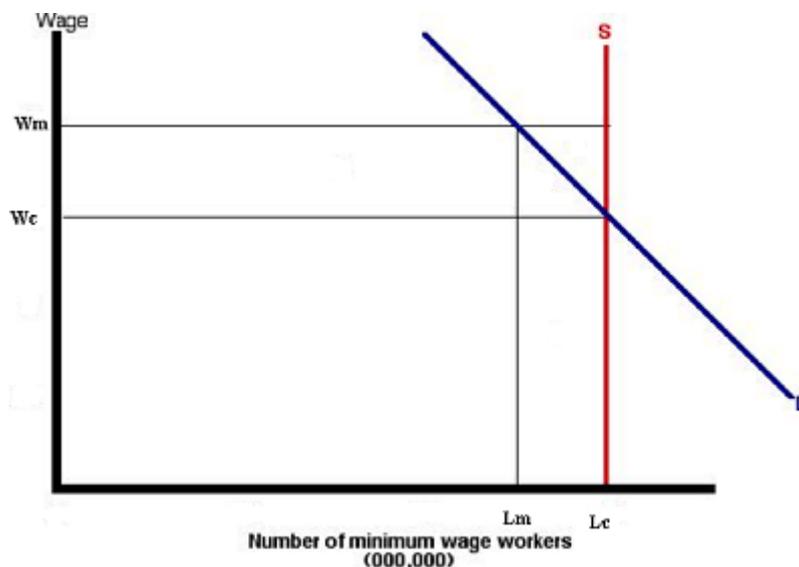
Answer on question #60371-Economics - Microeconomics

Suppose a labour market has perfectly inelastic supply that is composed of union and non-union workers, and both groups of workers initially earn the perfectly competitive wage. What happens to the equilibrium employment level and wage for union workers if the union exercises its bargaining power?

- a. Both increase.
- b. Employment increases and wage declines.
- c. Wage increases and employment declines.
- d. Both decline.

Solution

The bargaining power of union means that the minimum wage will be increased from W_c to W_m but the level of employment will be decreased from L_c to L_m as we show on the graph under.



The true answer is c).

Answer

c)