

Answer on Question #83911 - Economics - Macroeconomics

d. With the nominal wage fixed at \$38, the price of widgets doubles from \$5 each to \$10 each. What happens to Acme's labor demand and production?

Answer:

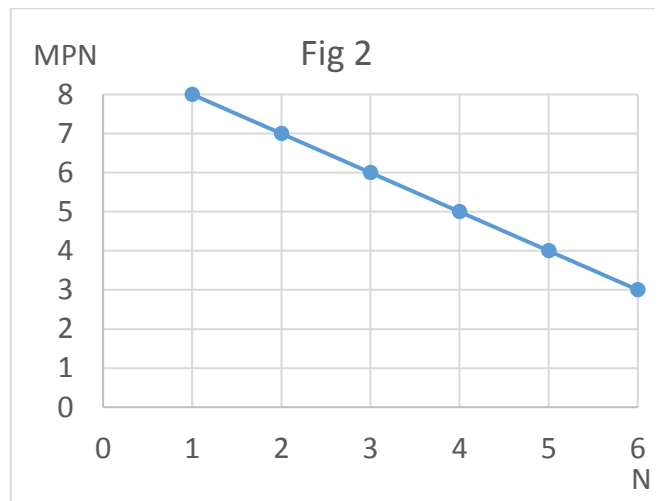
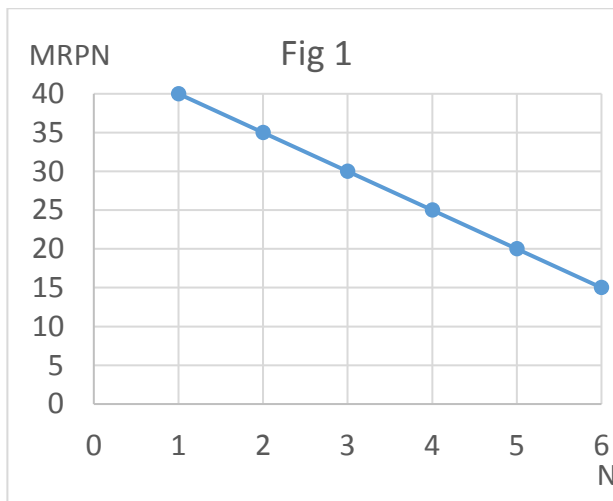
With a nominal wage set at \$ 38, a firm must hire five employees. At the same time, MRPN (40 US dollars) is more than W (\$ 38) with the number of employees - 5 people. The firm should not hire 6 employees, because the MRPN (\$ 30) is less than W (\$ 38) with the number of employees - 5 people.

With 5 employees, the output of the widgets is 30 units, Compared with 8 units, Provided that the company hired only 1 employee. That is, an increase in the price of a product leads to an increase in the demand and productivity of the company.

c. Graph the relationship between Acme's labor demand and the nominal wage. How does this graph differ from a labor demand curve? Graph Acme's labor demand curve.

Answer:

The relationship between labor demand and nominal wages plots in Figure 1. This chart differs from the labor demand curve, because the labor demand curve shows the relationship between labor demand and real wages. The demand curve for labor plots in Figure 2.



e. With the nominal wage fixed at \$38 and the price of widgets fixed at \$5, the introduction of a new automatic widget maker doubles the number of widgets that the same number of workers can produce. What happens to labor demand and production?

Answer:

The introduction of a new automatic widget manufacturer doubles the number of widgets, which leads to a doubling of the MPRN. MPRN is the same as in part (d), with an increase in price by 2 times. That is, the demand for labor remains the same as in part (d). Nevertheless, the production, which is made by 5 workers, is now doubled to 60 units.

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