Questions you should be able to answer after doing the reading and attending class

1. What is the difference between real and nominal wages?
2. What is meant by opportunity cost?
3. What is the scale effect? What is the substitution effect? Describe how each would work if the price of labor increased.
4. How would each of the following affect the labor demand curve (that is, shift the curve or result in movement along the curve)
   a. Increase in the price of capital
   b. Decrease in wages
   c. Increase in product demand
5. What does marginal mean and why is it used in economic analysis? Express the marginal product of labor in arithmetic terms.
6. What is the point at which profits are maximized in a firm facing both competitive product and labor markets in the short run? What about in the long run?
7. What is the formula for the marginal product of labor? Define $MP_L$ in words.
8. What assumption differentiates the short-run and long-run demand for labor models?
9. Why are there diminishing marginal returns to labor in the short-run? Draw the $MP_L$ curve and show what part of it is equivalent to the labor demand curve. Why is that segment of the $MP_L$ the equivalent to the demand curve?
10. What is the optimal combination of capital and labor for any given level of input?
11. What is meant by the elasticity of demand?
12. If wages increased by 10% and demand for labor fell by 8%, what is the elasticity of demand?
13. What is the rule of thumb used to designate when labor demand is elastic versus inelastic?
14. Below are two demand curves:

One is the demand curve for concert pianists and the other is the demand curve for busboys. Which curve represents a more inelastic demand for labor? Which curve do you think is for which occupation? Tell why demand for one type of labor is likely to be more elastic than the other using the Hicks-Marshall rules for the elasticity of demand for labor.