

Competitive Question 155

Decreasing the supply of a factor

Student response:

Percent Value	Correct Response	Student Response	Answer Choices
100.0%	▶		a. increases the factor's income if the elasticity of demand for the factor is less than 1.
0.0%		▶	b. decreases the factor's income if the elasticity of demand for the factor is less than 1.
0.0%			c. increases the factor's income if the elasticity of supply of the factor is less than 1.
0.0%			d. decreases the factor's income if the elasticity of supply of the factor is less than 1.

Score: 0 / 1

1) Demand elasticity of a factor (say labor) shows how the quantity demanded changes when the price of that factor changes (in percentage terms).

$$E_D = \% \text{ change in Labor Demand} / \% \text{ change in wage rate}$$

2) Factor income is Earnings (for labor) where

$$\text{Earnings} = w \cdot L \quad w = \text{wage rate} \ \& \ L = \text{hours worked}$$

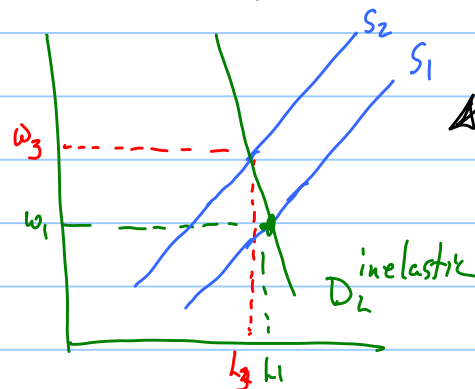
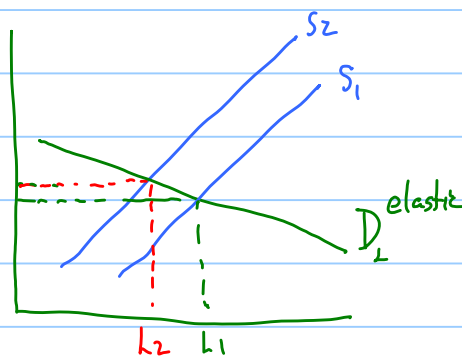
3) Let wage rise by 5% —

if L falls by 10% then earnings go down

if L falls by 2% then earnings go up

4) or graphically

factor income falls
 $w_2 L_2 < w_1 L_1$



factor income increases
 $w_3 L_3 > w_1 L_1$