Learning Objectives

After you have studied this chapter, you should be able to

1. outline the essential history of the labor union movement;
2. discuss the current status of labor unions;
3. describe the basic economic goals and strategies of labor unions;
4. evaluate the potential effects of labor unions on wages and productivity;
5. explain how a monopsonist determines how much labor to employ and what wage rate to pay;
6. compare wage and employment decisions by a monopsonistic firm with the choices made by firms in industries with alternative market structures.

Outline

1. Unions are workers’ organizations that usually seek to secure economic improvements for their members.
   a. The U.S. labor movement started with craft unions, which are composed of workers who engage in a particular skill or trade.
   b. The American Federation of Labor (AFL), a craft union, was formed by Samuel Gompers in 1886. AFL membership growth flourished until World War I, when the government withdrew its support.
   c. The Great Depression brought the National Recovery Act in 1933, which attempted to raise wages to pre-Depression levels. This law’s key provision was to guarantee the right of labor to bargain collectively.
   d. The Wagner Act also guaranteed collective bargaining and granted workers the right to form unions.
   e. In 1938, John L. Lewis formed the Congress of Industrial Organizations (CIO), which was composed of industrial unions; that is, unions with membership from an entire industry.
f. The Taft-Hartley Act was enacted to stem union power. The law allows individual states to pass right-to-work laws, which make the requirement of union membership for continued employment illegal. It also bans the closed shop everywhere and the union shop in states with right-to-work laws and outlaws jurisdictional disputes, sympathy strikes, and secondary boycotts.

2. There is a worldwide trend toward declining unionization, and there has been a change in the types of occupations attracting union members.
   a. The percentage of the U.S. labor force that is unionized has fallen because of a decrease in the relative importance of manufacturing, industry deregulation, increased immigration, and greater global competition.
   b. A shift toward more workers employed in service occupations has produced a corresponding shift toward greater unionization of these workers, particularly among workers employed by federal, state, and municipal governments.

3. Unions can be analyzed as setters of minimum wages. The strike is the ultimate bargaining tool for unions.

4. It is not clear what unions wish to maximize. Unions can either set wage rates or select the quantity of its membership that will be employed. Unions cannot do both.
   a. To the extent that unions set wage rates above equilibrium, they create a surplus of labor, or a shortage of jobs that they ration.
   b. If unions wish to employ all members, they must accept a relatively low wage rate.
   c. If unions wish to maximize total labor income, they set wage rates at the point at which the price elasticity of demand equals 1. Some members will be unemployed.
   d. If unions maximize wage rates for a given number of workers—presumably high-seniority workers—low-seniority workers will become unemployed because wage rates probably will be set above equilibrium.
   e. One union strategy is to limit total union membership to the original quantity. Over time, if demand increases, wage rates will rise.
   f. Unions can raise wage rates for members by (a) limiting membership, and (b) increasing union labor productivity, thereby increasing the demand for union labor relative to nonunion labor.

5. Unionization has conflicting effects on wages, productivity, and employment.
   a. There is evidence that unions do succeed in achieving higher hourly wage rates for their members but not significantly higher annual earnings than nonunion workers.
   b. While certain union practices such as featherbedding and strikes reduce labor productivity, other practices such as airing grievances and concerns about inefficient production methods may increase productivity.
   c. Employment growth has slowed significantly in the most heavily unionized industries, but the overall effects of unionization on U.S. employment are probably relatively small.
6. Consider a firm that is a perfect competitor in the product market and a monopsonist in the labor market.
   a. That firm faces an upward-sloping supply of labor curve. Before it can hire more labor, the firm must raise wage rates for all of its employees.
   b. As a consequence, the marginal factor cost of hiring labor to that firm exceeds the wage rate. The MFC curve is that firm’s additional cost of hiring labor, and it rises as the firm hires more labor.
   c. The marginal benefit of hiring labor to such a firm is its MRP curve, which falls (due to declining marginal product of labor) as it hires more labor.
   d. The profit-maximizing employment level occurs at the point at which the decreasing MRP curve intersects the rising MFC curve. The wage rate is set on the supply curve, consistent with that quantity of labor.
   e. In such a situation, monopsonistic exploitation of labor results because the wage rate is below the MRP of labor.

7. A summary of monopoly, monopsony, and perfectly competitive situations is presented in Figure 29-8.

■ Key Terms

<table>
<thead>
<tr>
<th>Collective bargaining</th>
<th>Jurisdictional dispute</th>
<th>Right-to-work laws</th>
</tr>
</thead>
<tbody>
<tr>
<td>Craft unions</td>
<td>Labor unions</td>
<td>Strikebreakers</td>
</tr>
<tr>
<td>Industrial unions</td>
<td>Monopsonist</td>
<td></td>
</tr>
</tbody>
</table>

■ Key Concepts

<table>
<thead>
<tr>
<th>Bilateral monopoly</th>
<th>Marginal factor cost (MFC)</th>
<th>Sympathy strike</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed shop</td>
<td>Monopsonistic exploitation</td>
<td>Union shop</td>
</tr>
<tr>
<td>Featherbedding</td>
<td>Secondary boycott</td>
<td></td>
</tr>
</tbody>
</table>

■ Completion Questions

Fill in the blank, or circle the correct term.

1. The U.S. labor movement started with local __________ unions, which are comprised of workers in a particular ____________________________. The other major type of union is the __________ union, which consists of workers from a particular __________________________.

2. The Great Depression generated legislation that (helped, hurt) the union movement.

3. The Taft-Hartley Act of 1947 (is, is not) considered pro-labor union. The law allows states to pass __________ laws. The act makes illegal the following union practices: ____________, ____________, ____________ strikes, and ____________ boycotts.
4. The original craft unions were the ______________________.

5. The ultimate bargaining tool for the union is the ______________________.

6. If a union sets wage rates above market clearing levels, it creates a(n) ______________________ of labor. Viewed alternatively, the union creates a(n) ______________________ of jobs, which it must then ration to workers.

7. If a union chooses to employ all of its members, it (must, need not) accept a lower wage rate. If the union wants to maximize the value of total wages, it sets the wage rate at the point at which the price elasticity of demand for labor equals the number ____________. If the union wants to set relatively high wages for its high-seniority members, its ________ members will be laid off.

8. Assume that a firm is a perfect competitor in the product market and a monopsonist in the labor market. The marginal benefit of hiring labor for such a firm is its ____________ curve, which is (horizontal, negatively sloped, positively sloped), due to the law of _____________. The marginal cost of hiring labor for such a firm is its ____________ curve, which is (horizontal, positively sloped, negatively sloped). The firm’s MFC curve rises because as it hires more labor, wage rates (fall, rise, remain constant) since the industry supply of labor curve is ______________ sloping. The firm’s MFC is (equal to, greater than, less than) the wage rate.

9. Assume a firm is a monopolist in the product market and a monopsonist in the labor market. The marginal benefit of hiring labor for that firm is its ____________ curve, which falls due to ______________ and ______________ as output increases. The marginal cost of hiring labor is that firm’s ______________ curve, which rises because in order to hire more labor, that firm must ______________ wage rates of ______________ employees. This is because the firm’s supply of labor curve is ______________ sloping.

10. A firm maximizes total profits by hiring labor up to the point at which the marginal benefit (exceeds, equals, is less than) the marginal cost from doing so. Suppose Firm A is a perfect competitor in the product market and a monopsonist in the labor market. Firm A will hire labor up to the point at which a downward-sloping ______________ curve intersects an upward-sloping ______________ curve. Given that quantity of labor, the wage rate will be set at that level consistent with the (supply, demand) curve of labor.

11. Firm B is a monopolist in the product market and a monopsonist in the labor market. If it wants to maximize total profits, it will hire labor up to the point at which a downward-sloping ______________ curve intersects an upward-sloping ______________ curve.

12. When a resource is paid less than its ______________, monopsonistic exploitation exists.
True-False Questions

Circle the T if the statement is true, the F if it is false. Explain to yourself why a statement is false.

T  F  1. The growth rate of unions and the extent to which unions are effective has depended on government support.

T  F  2. The Wagner Act increases union power, but the Taft-Hartley Act reduces it.

T  F  3. Union power was decreased during the Great Depression.

T  F  4. In recent years, public employee union membership has increased significantly.

T  F  5. Unions tend to create a shortage of labor and a surplus of jobs.

T  F  6. In the United States, unions can set wage rates or determine the quantity of labor hired, but they cannot do both.

T  F  7. If a union wants to maximize the value of total wages, it sets wage rates as high as it possibly can.

T  F  8. If a union can restrict the total quantity of laborers to a fixed number, its members will earn higher wages in the future.

T  F  9. Recent studies indicate that unions do not increase labor’s productivity.

T  F  10. A profit-maximizing firm that is a perfect competitor in the product market but a monopsonist in the labor market will hire labor up to the point at which MRP of labor equals the going wage rate.

T  F  11. A firm that is a monopolist in the product market and a monopsonist in the labor market maximizes total profit by hiring labor up to the point at which the MRP of labor equals the MFC of labor.

T  F  12. Monopsonistic exploitation exists when workers receive a wage below their MRP.

T  F  13. Government action to impose a minimum wage that is higher than the wage rate currently paid by a monopsonist causes employment at the monopsonist to decline.
Multiple Choice Questions

Circle the letter that corresponds to the best answer.

1. Which one of the following is not associated with a craft union?
   a. United Auto Workers
   b. AFL
   c. Knights of Labor
   d. Pipefitters Union

2. Which one of the following acts is not pro-labor union?
   a. National Industrial Recovery Act
   b. Wagner Act
   c. Taft-Hartley Act
   d. National Labor Relations Act

3. Which one of the following is legal in non–right-to-work states?
   a. closed shop
   b. union shop
   c. sympathy strike
   d. secondary boycott

4. Which one of the following is true about the union movement?
   b. Since 1968, private-employee union membership has risen.
   c. Since 1968, public-employee union membership has fallen dramatically.
   d. All of the above.

5. Unions tend to
   a. set minimum wages for members above the market clearing level.
   b. create unemployment for low-seniority members.
   c. create surpluses of labor and shortages of union jobs.
   d. All of the above.

6. If a union sets wage rates above market clearing levels, then
   a. jobs must be rationed among union members.
   b. a surplus of jobs is created.
   c. a shortage of labor is created.
   d. high-seniority members will complain.
7. Which one of the following is inconsistent with the others?
   a. surplus of labor
   b. shortage of jobs
   c. wage rate above the market clearing level
   d. wage rate below the market clearing level

8. If unions want to maximize the value of total wages, they set wage rates
   a. as high as they can.
   b. as low as they can.
   c. at the point at which the price elasticity of demand for labor equals 1.
   d. in the inelastic range of the product demand curve.

9. If unions maximize the wage rate of high-seniority workers, then
   a. low-seniority workers will become laid off.
   b. all union members will remain employed.
   c. they violate the Wagner Act.
   d. they violate the Taft-Hartley Act.

10. Which one of the following statements probably best describes the impact of unions on wage rates?
    a. Unions have increased all wage rates in the economy.
    b. Unions have increased all union worker wage rates.
    c. Unions increase the wage rates of some workers at the expense of other workers.
    d. Unions cannot raise wage rates for their members.

11. Unions can set
    a. wage rates but not employment levels.
    b. wage rates and employment levels.
    c. neither wage rates nor employment levels.
    d. either wage rates or employment levels, but not both.

12. If Firm B is a monopsonist in the labor market and a perfect competitor in the product market, then
    a. it faces a horizontal supply of labor curve.
    b. it faces a horizontal demand for labor curve.
    c. its wage rate equals its MFC.
    d. its marginal benefit from hiring labor equals the MRP of labor.
13. Firm B from Question 12 can maximize total profits by hiring labor up to the point at which
   a. a decreasing MRP of labor curve intersects a decreasing MFC of labor curve.
   b. a decreasing MRP of labor curve intersects a rising MFC of labor curve.
   c. a decreasing MRP of labor curve intersects a horizontal supply of labor curve, at the going wage rate.
   d. a horizontal MRP of labor curve is intersected by a rising MFC of labor curve.

14. Firm B from Questions 12 and 13 faces
   a. a rising MFC of labor.
   b. a declining labor MRP.
   c. an upward-sloping supply of labor curve.
   d. All of the above.

15. If Firm A is a monopolist in the product market and a monopsonist in the labor market, then
   a. it faces a horizontal labor supply and a horizontal labor demand curve.
   b. it faces a downward-sloping supply of labor curve.
   c. the marginal revenue product of labor falls and the marginal factor cost of labor rises.
   d. the marginal revenue product of labor is constant and the marginal factor cost of labor rises.

16. Firm A from Question 15 can maximize total profits by hiring labor up to the point at which
   a. a downward-sloping MRP of labor curve intersects an upward-sloping MFC of labor curve.
   b. an upward-sloping MRP of labor equals a constant wage rate.
   c. a constant MRP of labor curve equals a falling MFC of labor.
   d. a horizontal MRP of labor curve is intersected by a rising supply of labor curve.

17. Firm A from Question 15
   a. observes an MFC that exceeds the wage rate.
   b. observes a selling price that exceeds the marginal revenue of an extra unit of output.
   c. maximizes profits by hiring to the point at which MRP of labor = MFC of labor.
   d. All of the above.

18. Which one of the following is probably an example of monopsony exploitation, as defined in this text?
   a. A low-skilled laborer is paid $1 per hour in a perfectly competitive labor market.
   b. A professional athlete gets paid $1 million per year, but his MRP is $1.5 million per year.
   c. Mr. Smith can earn $35,000 per year as a plumber but chooses to work as a high school teacher for $20,000 per year.
   d. Mrs. Calvo has a Ph.D. in English but only earns $10,000 per semester teaching university English because there are so many qualified teachers in that area.

19. Monopsonistic exploitation equals
   a. marginal physical product of labor minus the wage rate.
   b. marginal revenue product of labor minus the wage rate.
c. marginal physical product of labor minus marginal revenue product of labor.
d. marginal factor cost of labor minus marginal physical product.

■ Working with Graphs

1. Suppose you are given the following graphical representation for a monopsonist selling its output in a perfectly competitive market. Answer the following questions.

![Graph of Wage Rate in Dollars per Hour vs Number of Workers]

a. Given the market conditions that exist in the above graph, the monopsonist will hire _______ workers per day at a wage of _______ per hour.

b. Suppose that the government (or a labor union) initiates a minimum wage of $12.50 per hour in this particular market. As a result, the monopsonist will (increase, decrease) its employment rate to _______ workers per day at a wage of _______ per hour.
2. Use the graph below to answer the following questions. Note: Define monopolistic exploitation as being equal to the difference between $VMP$ (or price times the marginal product of labor) and $MRP$—as defined in the text. (Note: $VMP$ is not defined in your text. Consequently, this is a difficult question. It is purely optional.)

![Graph showing labor market with MFC, S, VMP, and MRP curves]

a. This monopolist-monopsonist will hire ____________________ workers per day and pay a wage of ______________ per hour.

b. At this rate of employment, the value of marginal product of labor ($VMP$) is _______ per hour.

c. With no outside intervention in this market, we will observe (monopsonistic, monopolistic, both monopsonistic and monopolistic) exploitation.

d. The level of monopsonistic exploitation is ______________ per hour, and the level of monopolistic exploitation is __________________ per hour.

e. The total level of exploitation is _______ per hour, represented by the difference between the __________________________ and the ____________________________.
### Answers

#### Completion Questions

1. craft; skill or trade; industrial; industry
2. helped
3. is not; right-to-work; closed shop (union shop in right-to-work states); jurisdictional disputes; sympathy; secondary
4. European merchant guilds
5. strike
6. surplus; shortage
7. must; l; low-seniority
8. MRP of labor; negatively sloped; diminishing returns; MFC of labor; positively sloped; rise; upward; greater than
9. MRP of labor; diminishing marginal physical product of labor; decreasing product price; MFC of labor; raise; all; upward
10. equals; MRP of labor; MFC of labor; supply
11. MRP of labor; MFC of labor
12. marginal revenue product

#### True-False Questions

1. T
2. T
3. F It was increased by President Roosevelt.
4. T
5. F They create a surplus of labor and a shortage of jobs.
6. T
7. F It sets the wage rate at the point at which the price elasticity of demand equals 1.
8. F Not necessarily. Demand may fall dramatically.
9. F They may increase productivity by creating a safer and more secure environment.
10. F It hires up to the point at which MRP = MFC of labor.
11. T
12. T
13. F The monopsonist hires labor to the point where MRP = MFC, at which the profit-maximizing quantity of labor hired is less than would be true in a perfectly competitive market. A minimum wage above the profit-maximizing wage reduces MFC to the fixed minimum wage rate, so the monopsony hires more workers.
Multiple Choice Questions

1. (a)  
2. (c)  
3. (b)  
4. (a)  
5. (d)  
6. (a)  
7. (d)  
8. (c)  
9. (a)  
10. (c) 

11. (d)  
12. (d)  
13. (b)  
14. (d)  
15. (c)  
16. (a)  
17. (d)  
18. (b)  
19. (b)  

Working with Graphs

1. a. 20, $10
   b. increase, 25, $12.50

2. a. 20, $8
   b. $24
   c. both monopsonistic and monopolistic
   d. $8, $8
   e. $16, VMP of $24 per hour, wage of $8 per hour
# Glossary

**Bilateral monopoly**  A market structure consisting of a monopolist and a monopsonist.

**Closed shop**  A business enterprise in which employees must belong to the union before they can be employed and must remain in the union after they are hired.

**Collective bargaining**  Negotiation between the management of a company and the management of a union for the purpose of setting a mutually agreeable contract that sets wages, fringe benefits, and working conditions for all employees in the unions involved.

**Craft unions**  Labor unions composed of workers who engage in a particular trade or skill, such as baking, carpentry, or plumbing.

**Featherbedding**  Any practice that forces employers to use more labor than they would otherwise or to use existing labor in an inefficient manner.

**Industrial unions**  Labor unions that consist of workers from a particular industry, such as automobile manufacturing or steel manufacturing.

**Jurisdictional dispute**  A disagreement involving two or more unions over which should have control of a particular jurisdiction, such as a particular craft or skill or a particular firm or industry.

**Labor unions**  Worker organizations that seek to secure economic improvements for their members. They also seek to improve the safety, health, and other benefits (such as job security) of their members.

**Monopsonist**  The only buyer in a market.

**Monopsonistic exploitation**  Paying a price for the variable input that is less than its marginal revenue product; the difference between marginal revenue product and the wage rate.

**Right-to-work laws**  Laws that make it illegal to require union membership as a condition of continuing employment in a particular firm.

**Secondary boycott**  A refusal to deal with companies or purchase products sold by companies that are dealing with a company being struck.

**Strikebreakers**  Temporary or permanent workers hired by a company to replace union members who are striking.

**Sympathy strike**  A work stoppage by a union in sympathy with another union’s strike or cause.

**Union shop**  A business enterprise that may hire nonunion members, conditional on their joining the union by some specified date after employment begins.