AP Microeconomics
Unit 5 Practice FRQs

FRQ #1

The labor market for the town of Bazra is perfectly competitive and 10 percent of the labor force is employed in the clothing industry.

(a) Assume that the clothing manufacturers close their plants in Bazra. Using a correctly labeled graph of supply and demand, predict the impact that closing these plants will have on each of the following:
   i. The wage rate and number of workers employed in Bazra as W_1 and Q_1, respectively
   ii. The number of workers in Bazra looking for work who cannot find employment from the wage rate you identified in (i)

(b) After the clothing manufacturers closed their plants in Bazra, the town passes a law that established an effective minimum wage. What impact will this minimum wage have on the following?
   i. The wage rate and number of workers employed in Bazra
   ii. The number of workers in Bazra looking for work who cannot find employment

(c) Assume that the minimum wage is in effect and there is an increase in the demand for goods produced in Bazra. What happens to employment in Bazra? Explain.

FRQ #2

Workers	Output
3	60
4	80
5	105
6	125
7	140
8	150

The table above describes the production function for Jones's T-shirt firm. Jones can hire as many workers as he wants for $75 per day and can sell as many T-shirts as he wants for $5 each.

(a) Given the production information above, complete the following.
   i. Draw a graph showing this firm's demand and supply curves for workers.
   ii. Label the quantity of workers the firm will hire as Q_1.
   iii. Explain how Jones will determine the number of workers to hire.

(b) Assume the wage rate at which Jones can hire all the workers he wants increases to $120 per day, and the selling price of T-shirts increases to $6. Answer each of the following.
   i. Explain how the demand for workers will change.
   ii. Indicate how many workers Jones will hire.

(c) In which type of market structure does Jones sell his T-shirts? Explain.

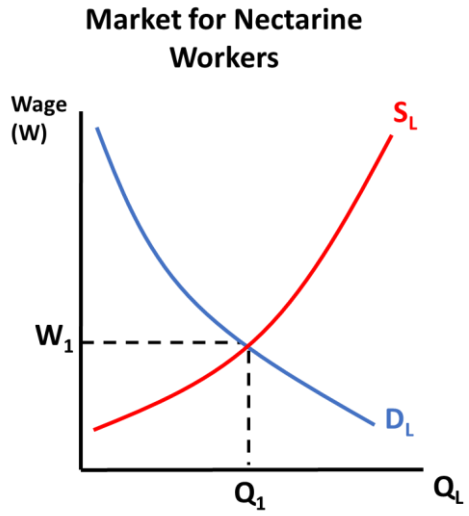
FRQ #3

Peaches and nectarines are substitute goods and both are produced under conditions of competitive long-run equilibrium.

(a) Joyce, a producer in the peach industry, discovers a new technological breakthrough that only reduces the cost of producing peaches. Explain how the change in technology will affect each of the following for Joyce.
   i. Quantity of peaches sold
   ii. Price of peaches
   iii. Short-run profits

(b) Now, assume that all other peach growing firms adopt the new technology. Explain how the adoption of the new technology will affect each of the following in the peach producing industry.
   i. Price of peaches
   ii. Quantity of peaches produced

(c) The new technology is not applicable to the production of nectarines. Explain how the changes that occurred in the peach industry will affect each of the following in the nectarine industry.
   i. Price of nectarines
   ii. Quantity of nectarines



(d) The graph above depicts the supply and demand curves for workers in the nectarine industry before the breakthrough in the peach industry. Explain how the technological breakthrough in the peach industry will affect each of the following in the labor market for nectarine workers.
   i. Wage rate for nectarine workers
   ii. Number of nectarine workers hired