What Determines Wages?

Worksheet

Wages are set by the supply of labour and the demand for labour. A scarce skill, high demand, or low worker supply raises wages; abundant supply or low demand lowers them.

Questions

1. If demand for computer programmers grows but few people learn the skill, wages will…

A) fall
B) rise
C) stay the same
D) disappear

2. What best explains wage differences between jobs?

A) Workers' luck
B) Supply and demand for that labour
C) Employer's preference
D) Government law

3. An industry starts hiring many more workers. Wages in that industry will likely…

A) fall
B) rise
C) disappear
D) freeze

4. Why do rare, specialized skills command higher wages?

A) Workers choose to work less
B) Low labour supply + high demand
C) Employers are generous
D) No reason

5. A software engineer in demand has 5 years' experience and a CS degree. Why do they earn more than a high school graduate in retail?

6. A nurse decides to become certified as a nurse practitioner (extra training). Predict her wage change.

7. Manufacturing jobs decline in a region as factories close. How are remaining factory workers' wages affected?

8. Define: What is the main factor setting wages?

9. Define: Does education affect wages?

10. Define: Can a job's wage change if the industry grows?

Answer Key

1. B) rise — High demand + low supply = wage increase to attract workers.
2. B) Supply and demand for that labour — Market forces of supply and demand set wage levels.
3. B) rise — Growing demand for workers → wage increase to attract them.
4. B) Low labour supply + high demand — Scarce supply and high demand compete to hire, raising wages.
5. Software engineer: high demand + scarce skill + education Retail worker: lower demand + common skill + no specialist training Wage difference = labour market value difference
6. Nurse practitioner = specialized skill, fewer practitioners, higher demand Education → higher wage Supply ↓, Demand ↑ → wage rises
7. Industry decline → fewer jobs Demand for factory workers ↓ Wage pressure ↓ (workers may relocate or retrain)
8. The supply of workers and demand for labour in the market.
9. Yes — higher education often leads to scarcer skills, raising demand and wages.
10. Yes — industry growth increases labour demand, pushing wages up.