

Power, Institutions, and Labor-Market Inequality

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 Public working draft

Public working draft. This chapter scaffold tests how the Chapter 2–3 model can organize power and inequality. Google Docs remains canonical. The UAW hook, empirical claims, institutional comparisons, group evidence, and Lorenz-curve decision all require coauthor and fact-check review.

Central question: How do bargaining power, unions, competition, and public rules change wages, employment, productivity, and the distribution of income?

By the end of this chapter, you should be able to: distinguish several measures of inequality; construct a segmented Lorenz curve from unemployment, wages, and profits; connect the WS–PS equilibrium to a whole-economy income distribution; distinguish a bargaining-only union effect from a productivity effect; trace product-market power through PS; and evaluate institutions for both distributional and efficiency effects.

4.1 The UAW strike and a changing balance of power

In September 2023, the United Auto Workers began a strike against Ford, General Motors, and Stellantis. Instead of calling every covered worker out at once, the union initially selected particular facilities and expanded the action over time. That strategy made a central feature of employment visible: an individual worker may have little power to interrupt production, but coordinated workers can change what actions are feasible for both sides. UAW and BLS sources

A **labor union**¹ is an organization of workers that represents members in matters such as pay, hours, conditions, and workplace rules. **Collective bargaining**² replaces many separate worker–employer negotiations with a negotiation between representatives. A strike is costly to workers who give up pay and to firms that lose production, sales, or customer relationships. The credible ability to impose those costs can affect the agreement even if a strike is avoided.

This is **structural power**³: power that follows from a person’s or group’s position in an interdependent system. Workers at a production bottleneck may have more structural power than their number alone suggests. **Bargaining power**⁴ is the ability to obtain a more favorable agreement, shaped by

¹An organization of workers that represents members in negotiations and other matters concerning pay, hours, conditions, and workplace rules. See also: collective bargaining; bargaining power.

²Negotiation between workers represented as a group and an employer or employer organization over wages, conditions, and workplace rules. See also: labor union; bargaining power.

³Power arising from a person’s or group’s position in an interdependent economic or social system, such as the ability to interrupt a production bottleneck. See also: bargaining power.

⁴The ability to obtain a more favorable agreement, shaped by outside options, patience, organization, information, law, and the cost of disagreement. See also: structural power; collective bargaining.

patience, outside options, organization, information, law, norms, and each side's ability to withstand disagreement.

The Rules of the game principle directs attention beyond personalities. US labor law, contract coverage, strike rules, employer strategy, benefit systems, and social norms shape which threats are credible and who bears the cost of delay.

The strike also occurred after a long decline in union membership. In 1983, about one in five US wage and salary workers belonged to a union. In 2023, when the UAW strike began, the share was one in ten. That national pattern does not tell us why membership changed, how union coverage differs from membership, or how much power a particular union has. It does show that the institutions through which workers bargain collectively have become less common.

Reading the opening evidence one step at a time

Final figure

Union membership has fallen as a share of US workers

Wage and salary workers, annual

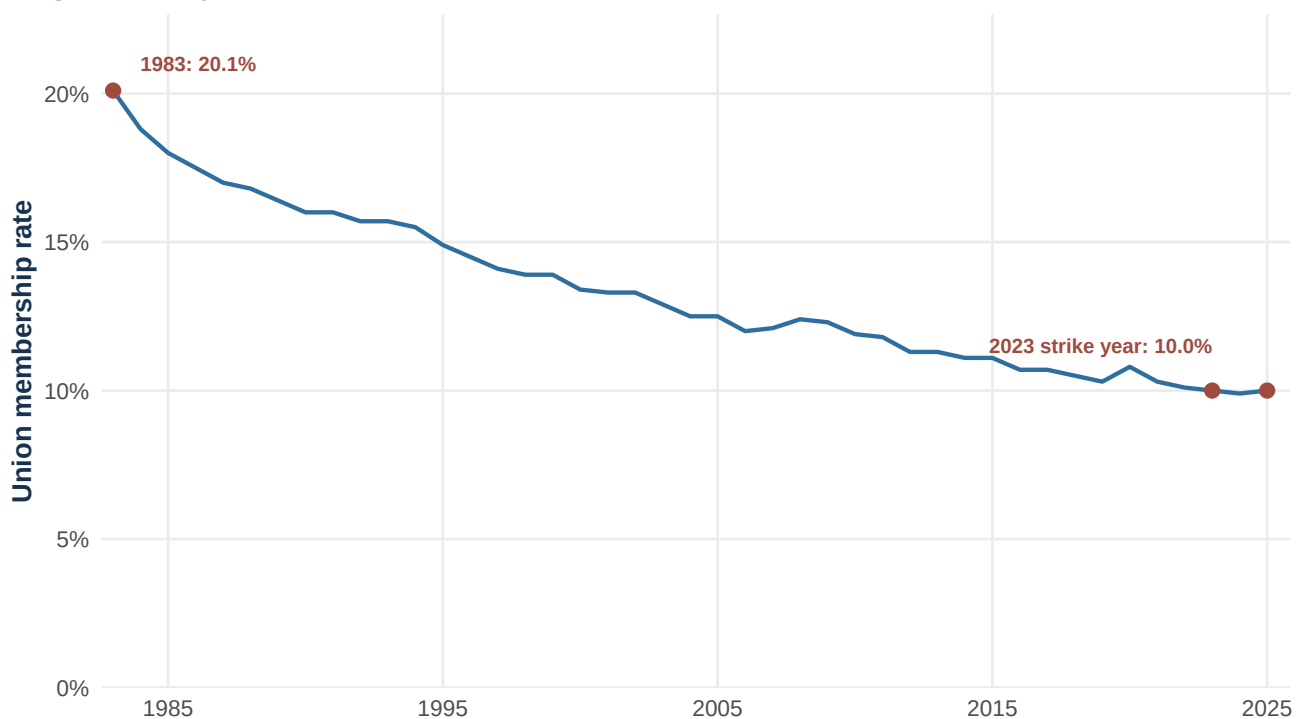


Figure 1: US union membership rate, 1983–2025. Source: U.S. Bureau of Labor Statistics Current Population Survey, series LUU0204899600. Annual and not seasonally adjusted; extracted August 21, 2026.



Scan to open the live step-by-step figure, or use the linked figure title in the digital chapter.

The 2023 point locates the UAW strike in time; it does not measure UAW membership, strike participation, or the strike's effect. The 2025 estimate is based on eleven months because the October survey was not collected, so BLS warns that it is not strictly comparable with other annual averages.

Side note

Everyday Economics 4.1

One request or a coordinated request?

Compare asking a landlord, employer, or campus administration for a change alone with making the request as an organized group. What becomes possible, and what new costs or conflicts appear?

Review flag

Fact-check flag: Verify the strike chronology and terminology against UAW releases, the ratified agreements, and BLS work-stoppage records. Verify the membership-series denominator and 2025 comparability warning. Any claim about causes, spillovers, or worker gains needs an independent source rather than a party's press release alone.

Questions

Question 4.1. Which statement is supported by Figure 4.1?

A. The decline in union membership proves that unions lost all bargaining power B. The union membership rate among wage and salary workers fell from 20.1% in 1983 to about 10% in the early 2020s C. The UAW strike caused the national membership rate to become 10% D. Ten percent of all US adults were UAW members in 2023

Exercise

Membership and power

Use Figure 4.1 to describe the change in union membership since 1983 and explain why the rate does not directly measure bargaining power. Then identify the workers, firms, customers, and public institutions in the UAW case; for each side, name an outside option, a cost of disagreement, and one source of structural or bargaining power.

4.2 From three economic classes to a Lorenz curve

Before explaining inequality, specify what is unequal. **Earnings**⁵ are payments from work. **Income**⁶ can include earnings, self-employment income, property income, and transfers, depending on the dataset. **Wealth**⁷ is a stock of assets minus debts. A household can have modest current income but substantial wealth, or high earnings and negative net wealth.

⁵Payments received from work, defined according to the source and period being measured. See also: income; wealth.

⁶A flow of resources received over a period, which may include earnings, self-employment income, property income, and transfers depending on the definition. See also: earnings; wealth; market income; disposable income.

⁷A stock of assets minus debts measured at a point in time. See also: income.

Market income⁸ is income before taxes and government transfers under the chosen statistical definition. **Disposable income**⁹ is income available after direct taxes and transfers under that definition. Comparing the two can show how public policy changes the distribution, but definitions differ across sources and in-kind services are not always included.

An **income share**¹⁰ asks what fraction of total income goes to a group—for example, workers or owners. The **Gini coefficient**¹¹ compresses the distribution into one number, usually from zero for complete equality to one for maximum inequality in the stylized limit. A single number is convenient, but it cannot show which class receives income or why. UOE Micro Ch. 5 and TE 2.0 §§2.2–2.3

To make the distribution emerge from the labor-market model, begin with 100 people in three classes. Ten are unemployed and receive no market income. Eighty are employed at the same real wage. Ten own the firms and receive profits. The exact numbers are teaching assumptions, not estimates of the US economy. They let us see how employment, the wage share, and the profit share jointly determine a segmented **Lorenz curve**¹².

⁸Income before taxes and government transfers under a stated statistical definition. See also: disposable income; income.

⁹Income available after direct taxes and transfers under a stated statistical definition. See also: market income; income.

¹⁰The fraction of total income received by a specified group, such as the bottom half or top tenth. See also: Gini coefficient; Lorenz curve.

¹¹The Gini coefficient usually ranges from zero for complete equality to one for maximum inequality in the stylized limit. It summarizes an entire distribution in one number, so different distributions can have the same Gini and a change does not show where gains or losses occurred. See also: income share; Lorenz curve.

¹²The horizontal axis orders people from lowest to highest income and accumulates their population share; the vertical axis accumulates their income share. In this chapter, unemployment determines the initial flat segment and wages and profits determine later segments. Distance below the line of equality describes inequality but does not identify its causes. See also: income share; Gini coefficient; whole-economy model.

Constructing the segmented Lorenz curve one step at a time

Final figure

Building a Lorenz curve from three economic classes

Step 5 completes the curve with owners and the profit share

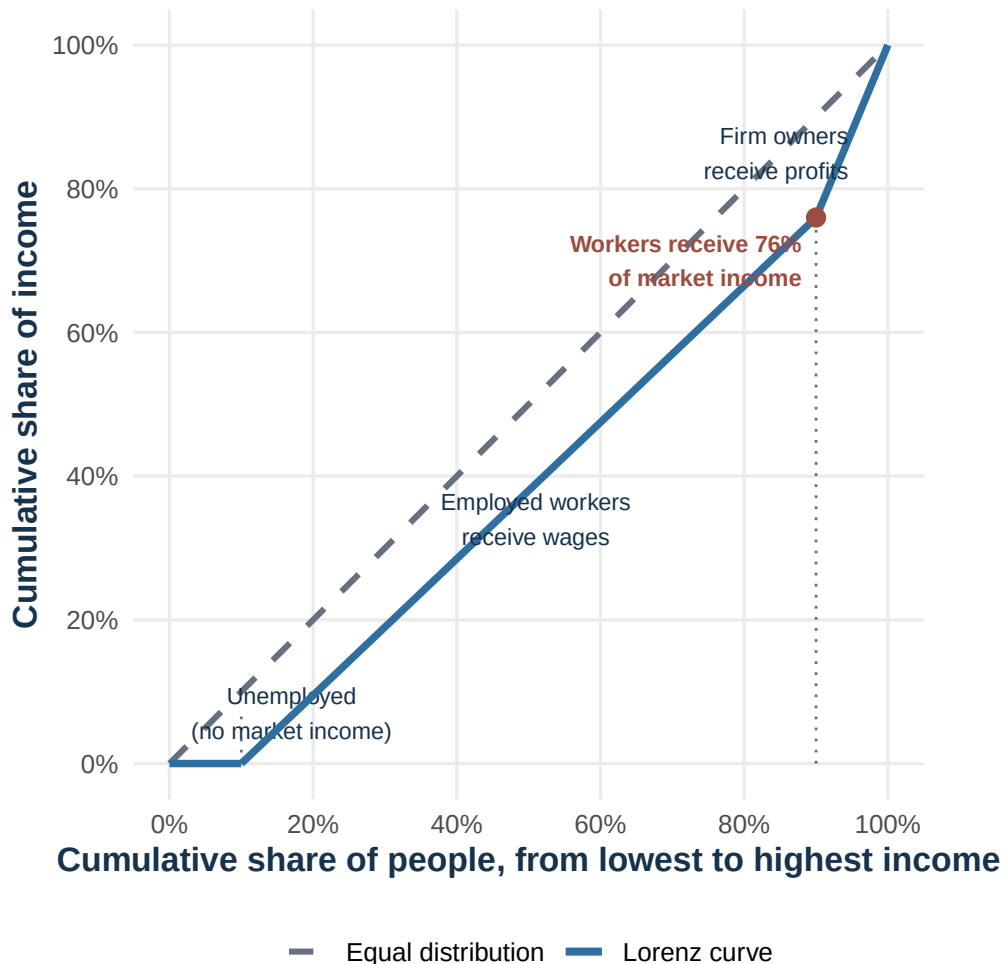


Figure 2: A three-class segmented Lorenz curve for unemployed people, employed wage earners, and firm owners. The numbers are model assumptions, not US estimates.



Scan to open the live step-by-step figure, or use the linked figure title in the digital chapter.

The final ten people receive the 24% profit share. Because each straight segment contains people with the same assumed income, its slope is that class's income per person. The final segment is steepest because each owner receives more market income than each worker in this simplified economy.

The Gini summarizes the gap between this curve and the equality line. The full curve is more informative here: unemployment determines the length of the flat segment, the real wage helps determine the worker

segment, and profits determine what remains for owners. Taxes, transfers, unequal wages within each class, household composition, and wealth are omitted.

 Review flag

Model-review flag: Figure 2 is a teaching model, not US data. Review whether zero income for unemployed people, equal wages within the worker class, equal profits within the owner class, and a ten-person owner class are the most useful starting assumptions. Later versions should compare the model with empirical distributions without presenting the assumptions as observations.

Questions

Question 4.2. In the three-class Lorenz model, why is the first segment flat?

- A. The unemployed group receives no market income in the model
- B. All workers receive the same wage
- C. Firm owners receive profits
- D. The Gini coefficient is zero

Exercise

Build the three-class Lorenz curve

Use Figure 4.2. In a population of 100, suppose 10 people are unemployed with no market income, 80 employed workers receive 76% of market income in equal shares, and 10 owners receive the rest in equal shares. Write the four Lorenz coordinates, explain the slope of each segment, and predict how the curve changes if five unemployed people become employed at the same wage.

4.3 Unions change the labor-market game

Before adding a union, connect the Chapter 3 equilibrium to the distribution in Section 4.2. The **whole-economy model**¹³ combines two diagrams: WS–PS determines employment and the real wage; those outcomes determine how many people occupy the unemployed and worker segments of the Lorenz curve, while PS and the markup help determine the division between wages and profits. TE 2.0 §2.9 and BFH figure source

¹³A linked WS–PS and Lorenz-curve model in which employment, real wages, and profits determine a simplified distribution of market income among unemployed people, workers, and owners. See also: Lorenz curve; income share; labor share.

From the best-response equilibrium to a whole-economy distribution

Final figure

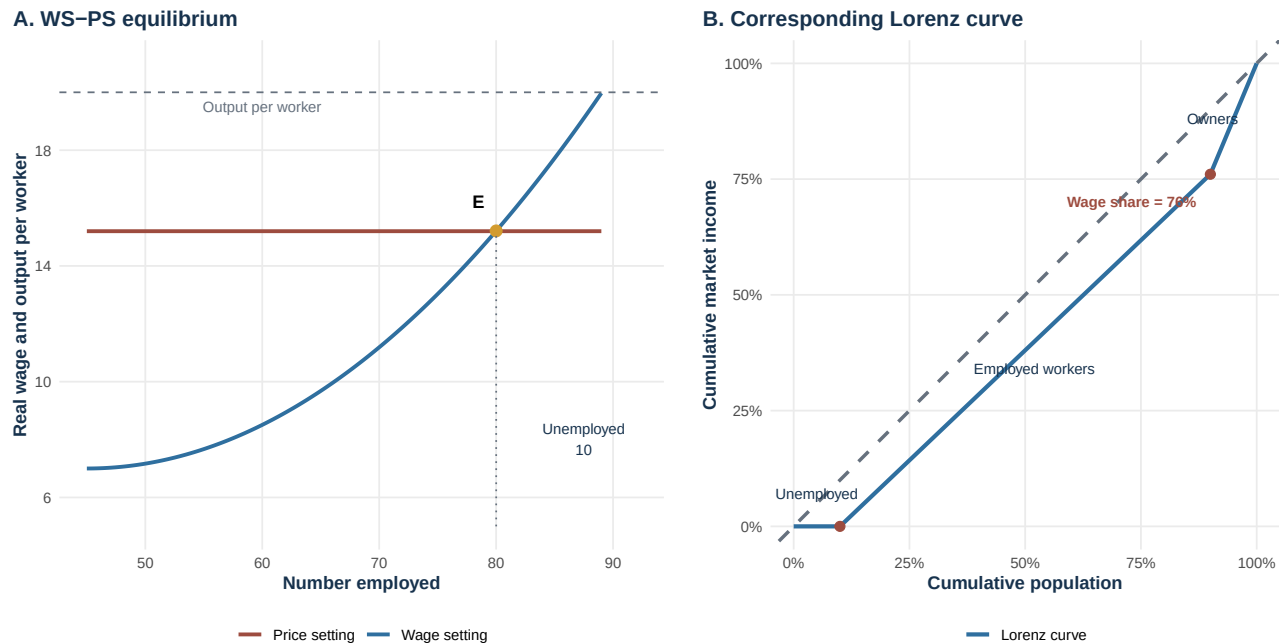


Figure 3: A two-panel whole-economy model links the WS–PS equilibrium to a three-class Lorenz curve. Values are stylized teaching assumptions adapted from TE 2.0 and the BFH textbook figures.



Scan to open the live step-by-step figure, or use the linked figure title in the digital chapter.

The arrows are conceptual, not an additional equation. A change in WS or PS can alter employment, wages, the wage share, the profit share, and therefore the shape of the Lorenz curve. This is why a labor-market institution may affect both efficiency and distribution.

Chapters 2 and 3 treated the firm as offering a feasible wage to an individual worker. Collective bargaining adds an organized actor. Workers may negotiate not only over the wage but also scheduling, safety, staffing, benefits, promotion, discipline, training, and how workplace change occurs. TE 2.0 §2.5

The simplest model says that bargaining power can produce a wage above the firm’s minimum no-shirking wage. But representing a union as only an upward WS shift is incomplete. At least four channels may operate:

Channel	Possible effect	Question to investigate
Bargaining	More of the gains from cooperation go to workers	How does the agreement change wages and employment?
Voice	Workers can report problems and influence decisions	Does voice reduce quits or improve job satisfaction?

Channel	Possible effect	Question to investigate
Cooperation	Repeated negotiation can solve production problems	Does productivity or quality change?
Conflict	Strikes and resistance interrupt production	Who bears the short- and long-run costs?

This is the Principle of gains from cooperation and conflict of interest. Employment can create gains for workers and owners while leaving conflict over how those gains are divided and how the workplace is governed.

Union coverage may also affect nonunion workers. Employers can raise pay to deter organizing, union standards can become industry reference points, or unionized firms can lose business to competitors. The sign and size of spillovers are empirical questions.

Separate a bargaining effect from a productivity effect

The diagram below deliberately separates two cases that are often combined in verbal arguments. If collective bargaining only raises the wage firms must offer at each employment level, WS shifts upward while PS stays fixed. At the initial employment level, point C is the negotiated wage workers seek, but that wage is above the firm's feasible price-setting wage. The new intersection E' has a higher real wage and **lower employment**—therefore higher unemployment. Saying that a wage-only WS shift reduces unemployment would reverse the model's logic.

A second possibility is that collective voice, cooperation, lower turnover, or training raises productivity. PS then rises. In the stylized final step, this productivity effect is large enough to raise both the real wage and employment. Whether actual unions generate either effect, and how large each is, requires evidence.

Final figure

Union bargaining, voice, and productivity are different mechanisms

Step 4 adds a productivity gain that raises PS and can increase wages and employment

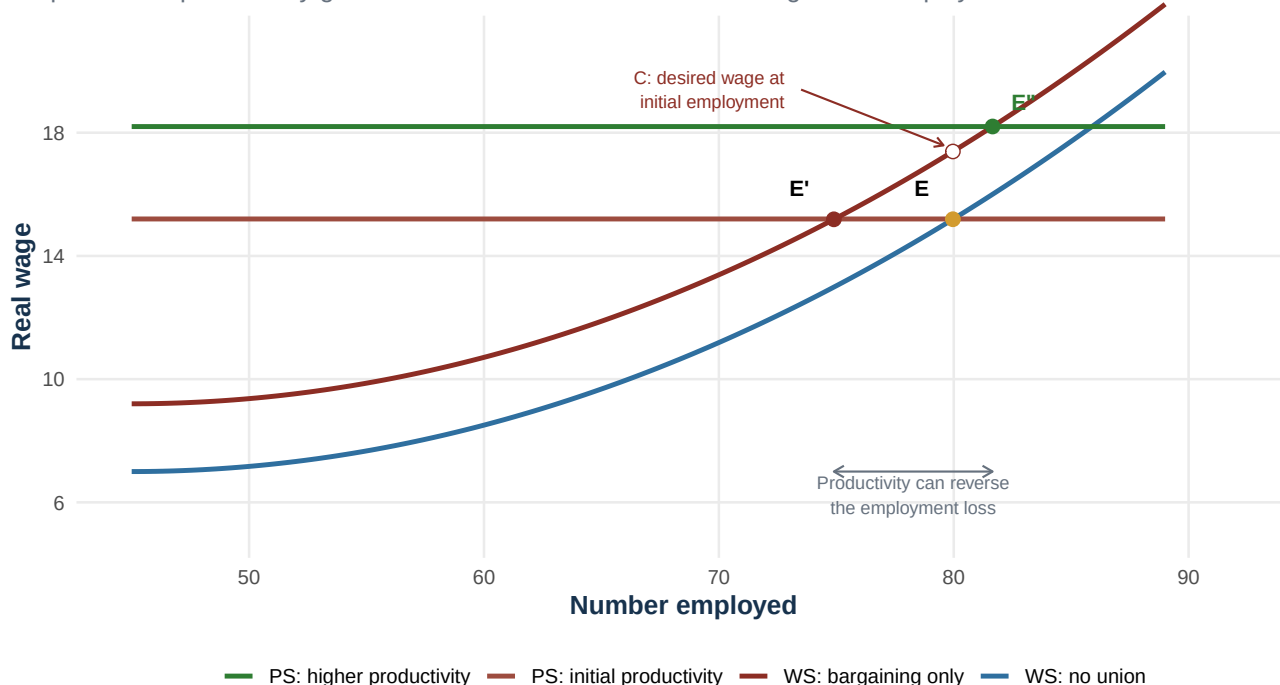


Figure 4: Union bargaining alone shifts WS upward and lowers employment at fixed PS; an additional productivity gain raises PS and can increase both wages and employment. Values are stylized.



Scan to open the live step-by-step figure, or use the linked figure title in the digital chapter.

i Side note

Build from UOE Micro

The [Chapter 8 working draft](#) develops feasible choices and doing the best you can. UOE Micro then shows how [a union changes the individual-worker employment game](#), [strengthens the worker's outside option](#), and [connects union power to inequality and wage setting](#). This chapter moves from those individual interactions to aggregate employment and distribution.

i Side note

Everyday Economics 4.2

Voice or exit?

When a schedule or workplace rule is unfair, a worker can leave, complain individually, or act with coworkers. Which option is feasible depends on savings, alternative jobs, legal protection, and relationships at work.

Questions

Question 4.3. Holding PS fixed, what does an upward bargaining-only shift in WS do in Figure 4.4?

A. It raises employment and lowers the real wage B. It raises the real wage and lowers employment C. It leaves employment and the real wage unchanged D. It shifts PS upward automatically

Exercise

Bargaining is not productivity

Use Figure 4.4. First hold PS fixed and trace the bargaining-only WS shift from E to E'. Explain why employment falls. Then add the productivity effect and trace the move to E''. State how each case changes the unemployed segment and worker segment of the Lorenz curve. Finally name evidence that could distinguish the two mechanisms.

4.4 Competition, markups, monopsony, and the labor share

Power also appears when firms interact with customers and workers. Product-market power can allow a firm to sustain a larger markup. In the Chapter 3 diagram, a larger markup lowers the price-setting real wage for given productivity. Labor-market power can let employers offer less favorable wages or conditions when workers have few credible alternatives.

Monopsony power¹⁴ is employer power arising when workers' labor supply to a firm is not perfectly responsive to the wage and conditions it offers. Search costs, commuting distance, occupation-specific skills, caregiving, health insurance, licensing, discrimination, and agreements among employers can all limit alternatives.

The **labor share**¹⁵ is the share of income or output paid as labor compensation under a stated accounting definition. A lower labor share can be consistent with a wider gap between productivity and typical compensation, but it does not identify a single cause. Changes in technology, industry composition, globalization, measurement, rents, markups, and bargaining can overlap. TE 2.0 §2.9 and UOE Micro Chs. 13–14

Concentration is not identical to market power. A market with few firms may remain contestable; a market with many nominal employers may still give workers few practical alternatives. Markups, concentration, profits, labor shares, and wage-setting estimates are different measurements. Evidence is strongest when several measures support the same mechanism.

¹⁴Employer power that arises when workers' labor supply to a firm is not perfectly responsive to the wage and conditions it offers. See also: bargaining power; labor share.

¹⁵The share of income or output paid as labor compensation under a stated accounting definition. See also: income share; monopsony power.

Lower competition in the whole-economy model

Suppose weaker product-market competition allows firms to charge a larger markup. With productivity unchanged, the real wage compatible with firms' price-setting decisions falls, so PS shifts downward. The new best-response equilibrium has a lower real wage and lower employment. In the segmented Lorenz curve, the unemployed group grows, workers receive a smaller income share, and owners receive a larger profit share.

Final figure

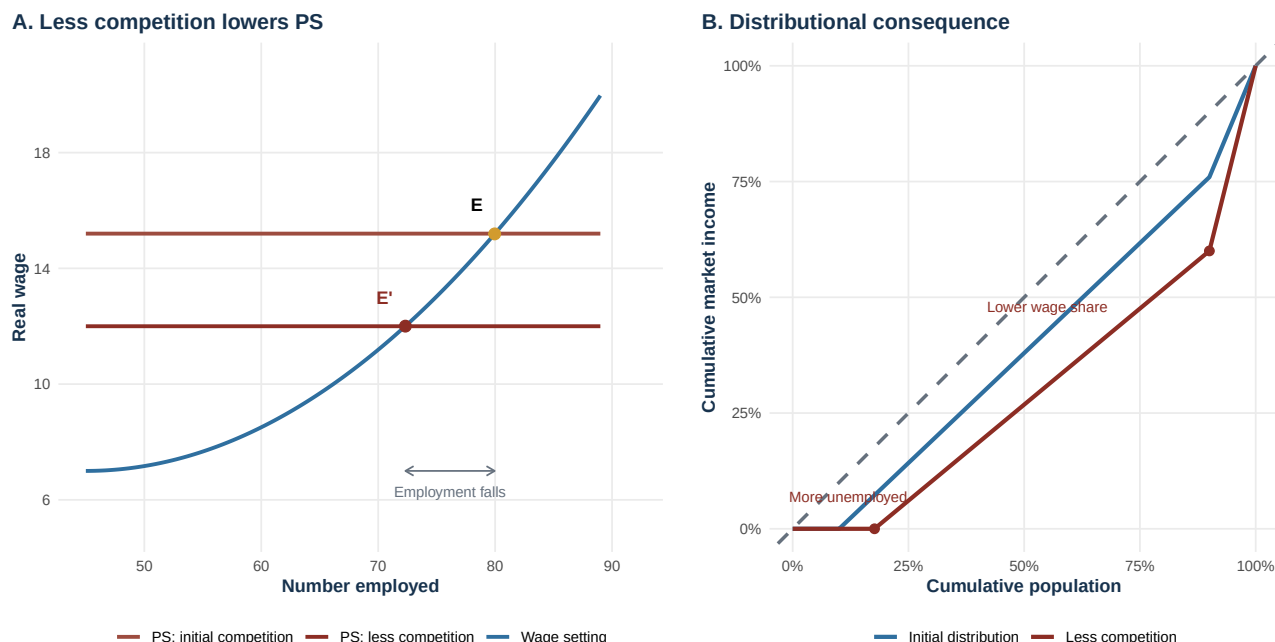


Figure 5: A larger markup lowers PS, employment, the real wage, and the worker share while increasing unemployment and the owner share in the stylized Lorenz curve.



Scan to open the live step-by-step figure, or use the linked figure title in the digital chapter.

The figure shows a mechanism, not evidence that one historical change caused another. An empirical argument would need measures of competition or markups, productivity, employment, wages, and labor shares that are comparable over time.

Questions

Question 4.4. In Figure 4.5, how does a larger markup affect the whole-economy model when productivity is unchanged?

A. PS shifts up and the worker share rises B. PS shifts down, employment and wages fall, and the owner share rises C. WS shifts down while PS is unchanged D. Only the Lorenz curve changes

Exercise

Competition and the whole economy

Use Figure 4.5 to trace a larger markup from PS to employment, the real wage, the wage share, and the three Lorenz segments. Then explain why a time series showing concentration and inequality rising together would not by itself establish this mechanism.

4.5 Institutions can change efficiency and distribution together

A **labor-market institution**¹⁶ is a formal or informal rule shaping employment relationships and labor-market outcomes. Minimum wages, unemployment insurance, collective bargaining, employment protection, training systems, scheduling laws, health insurance, and antidiscrimination enforcement are not interchangeable “interventions.” Each changes a package of incentives, insurance, power, and constraints.

Institution	Outside option or bargaining channel	Possible productivity or employment channel
Unemployment insurance	Makes job loss less costly and permits longer search	Can improve matches; financing and search responses matter
Minimum wage	Sets a wage floor and may strengthen worker fallback	Effects depend on employer power, demand, compliance, and productivity
Employment protection	Changes dismissal costs and job security	Can encourage firm-specific investment or reduce some hiring
Training institutions	Expand skills and worker alternatives	Can raise productivity and ease recruitment constraints
Collective bargaining	Coordinates wage and workplace rules	Can produce voice, cooperation, conflict, or restraint

The table rejects a one-dimensional ranking from “flexible” to “rigid.” An institution can shift wage setting, change price setting through productivity, alter matching, redistribute risk, and affect aggregate demand. The Principle of individual and societal interests asks whether individually sensible choices produce the outcome society values—and whether a changed rule can improve some goals while worsening others.

Fairness and efficiency are not always opposing objectives. More secure workers may invest in skills and share information; badly designed protection may make some firms reluctant to hire. Better insurance may improve job matching; it also changes search incentives and requires funding. The empirical task is to identify the relevant channels rather than attach one label to the entire package.

Questions

Question 4.5. Why should labor-market institutions be assessed as packages of channels?

A. Every institution has the same effect B. They can affect incentives, insurance, power, matching, productivity, and employment together C. Only distribution matters D. Only employment matters

¹⁶A formal or informal rule shaping employment relationships, worker and firm choices, and labor-market outcomes. See also: collective bargaining; bargaining power.

Exercise

Evaluate an institutional package

Choose unemployment insurance, a minimum wage, employment protection, training, or collective bargaining. Trace its first effects on outside options, incentives, risk, productivity, and employment; identify at least one ambiguity.

4.6 Data Extension: Inequality across groups and places

Group averages can reveal persistent inequality by race, ethnicity, gender, education, disability, place, or other dimensions. They cannot establish that the group label itself causes the outcome. Explanations may involve occupation and industry sorting, networks, discrimination, caregiving, health, wealth, schooling, union coverage, local demand, transport, housing, and institutions. UOE Micro Chs. 5 and 10

Expandable web content

Data Extension 4.1: Inequality across groups and places

This extension will become a fully constituted section after source selection and data review.

- Choose one outcome—earnings, unemployment, employment, labor share, or mobility—and keep definitions and denominators consistent.
- Begin with the figure's axes, units, population, frequency, and period.
- Compare at least two groups or places, showing uncertainty or sample limitations where relevant.
- State one descriptive result, at least two plausible mechanisms, and evidence that could distinguish them.
- Explain how market income differs from disposable income if taxes or transfers enter the comparison.
- End by stating what the graph cannot establish.

Candidate public sources: BLS CPS, Census CPS ASEC, Census LEHD, or another documented US source. Series selection remains open.

The extension is intentionally collapsed until a student chooses to open it. Its question block appears immediately afterward, following the UOE pattern.

Review flag

Data-development flag: Do not publish a group comparison until categories, denominators, sampling error, terminology, and disclosure risks have been reviewed. Avoid treating a descriptive gap as proof of discrimination or of any single mechanism.

Questions

Question 4.6. A persistent earnings gap between two groups directly establishes which claim?

A. The group label itself caused the gap B. The measured average earnings differ under the stated definitions C. Discrimination is the only possible explanation D. The gap will never change

Exercise

Description is not explanation

Design a group or place comparison using one US labor-market outcome. Specify population, denominator, period, uncertainty, and one descriptive claim. Give two mechanisms and evidence that could distinguish them.

4.7 Power can change both the size and division of gains

Return to the strike. Collective action changed who could credibly withhold cooperation and how long each side could withstand disagreement. The resulting contract concerned distribution—pay, benefits, and security—but workplace rules can also affect turnover, information, effort, investment, and productivity. Power therefore shapes both how gains are divided and, sometimes, how large the gains become.

The WS–PS model remains useful if we resist turning every institution into one arrow. Bargaining may change the wage negotiated at a given employment level. Voice may change effort costs and productivity. Market power may alter the markup and outside options. Public insurance may change risk and search. Group inequality may reflect different exposure to all of these channels.

A careful conclusion states the goal, the mechanism, the distributional consequences, and the evidence. It also asks whose outcomes are averaged together. That is how a model of wages and prices becomes an analysis of power and inequality rather than a diagram with renamed curves.

Seeing the principles in action

Principle	Example	Everyday Economics
Interdependence principle	The UAW strike shows how workers, firms, suppliers, customers, and communities depend on one another through production and bargaining.	A request made by one worker can have a different outcome when coworkers, customers, and suppliers also respond.
Doing the best you can principle	Workers and firms choose bargaining strategies given outside options, strike costs, law, information, and expectations about the other side.	Holding out longer may improve an agreement but also increases the cost of delay.
Rules of the game principle — focal	Labor law, union recognition, unemployment insurance, wage floors, and employment protection change feasible actions and bargaining power.	The same workplace conflict can produce a different outcome when workers can organize or when dismissal rules change.

Principle	Example	Everyday Economics
Trade-offs and opportunity costs principle	A strike sacrifices current pay and production for the possibility of a better agreement; institutions trade insurance, incentives, security, and adjustment in different ways.	What would you give up today to improve a rule that affects your future pay or schedule?
Principle of gains from cooperation and conflict of interest — focal	Employment and collective problem solving can raise output and benefit both workers and owners, while bargaining determines how gains, risk, and authority are divided.	A group project can produce more than separate work even when participants disagree over credit and responsibilities.
Principle of individual and societal interests — focal	A firm's effort to reduce wages or a worker's need to protect a job can be individually rational while producing insecurity, weak voice, or inefficient matching across the labor market.	Leaving a poor job may be sensible for one worker, while widespread turnover can reveal a workplace rule that harms everyone.
Principle of aggregation and feedback	Bargaining and market power at many firms aggregate into employment, labor shares, income distributions, prices, and feedback to workers' outside options.	One pay agreement is local; many similar agreements can affect wage norms, spending, prices, and hiring.

Skills and learning objectives

- Reading an analytical graph
- Reading and interpreting an empirical graph (and its terms)
- Illustrating concepts on a graph
- Seeing how institutions change game outcomes
- Adjusting a model in response to economic or institutional changes
- Understanding the difference between causality and correlation
- Explaining a causal mechanism
- Applying principles to a specific scenario
- Defining important economic terms

Concepts to learn

- Labor unions, collective bargaining, structural power, and bargaining power
- Earnings, income, wealth, market income, and disposable income
- Income shares, the Gini coefficient, and the provisional Lorenz curve
- Union bargaining, voice, cooperation, conflict, and productivity
- Product-market power, monopsony power, markups, and the labor share
- Labor-market institutions as packages of incentives, insurance, and power
- Group and place inequality, description, and institutional explanation

- Fairness, efficiency, and the size and division of gains

Glossary

Chapter 4 terms

labor union

An organization of workers that represents members in negotiations and other matters concerning pay, hours, conditions, and workplace rules.

See also: [collective bargaining](#); [bargaining power](#).

collective bargaining

Negotiation between workers represented as a group and an employer or employer organization over wages, conditions, and workplace rules.

See also: [labor union](#); [bargaining power](#).

structural power

Power arising from a person's or group's position in an interdependent economic or social system, such as the ability to interrupt a production bottleneck.

See also: [bargaining power](#).

bargaining power

The ability to obtain a more favorable agreement, shaped by outside options, patience, organization, information, law, and the cost of disagreement.

See also: [structural power](#); [collective bargaining](#).

earnings

Payments received from work, defined according to the source and period being measured.

See also: [income](#); [wealth](#).

income

A flow of resources received over a period, which may include earnings, self-employment income, property income, and transfers depending on the definition.

See also: [earnings](#); [wealth](#); [market income](#); [disposable income](#).

wealth

A stock of assets minus debts measured at a point in time.

See also: [income](#).

market income

Income before taxes and government transfers under a stated statistical definition.

See also: [disposable income](#); [income](#).

disposable income

Income available after direct taxes and transfers under a stated statistical definition.

See also: [market income](#); [income](#).

income share

The fraction of total income received by a specified group, such as the bottom half or top tenth.

See also: [Gini coefficient](#); [Lorenz curve](#).

Gini coefficient

The Gini coefficient usually ranges from zero for complete equality to one for maximum inequality in the stylized limit. It summarizes an entire distribution in one number, so different distributions can have the same Gini and a change does not show where gains or losses occurred.

See also: [income share](#); [Lorenz curve](#).

Lorenz curve

The horizontal axis orders people from lowest to highest income and accumulates their population share; the vertical axis accumulates their income share. In this chapter, unemployment determines the initial flat segment and wages and profits determine later segments. Distance below the line of equality describes inequality but does not identify its causes.

See also: [income share](#); [Gini coefficient](#); [whole-economy model](#).

whole-economy model

A linked WS–PS and Lorenz-curve model in which employment, real wages, and profits determine a simplified distribution of market income among unemployed people, workers, and owners.

See also: [Lorenz curve](#); [income share](#); [labor share](#).

monopsony power

Employer power that arises when workers' labor supply to a firm is not perfectly responsive to the wage and conditions it offers.

See also: [bargaining power](#); [labor share](#).

labor share

The share of income or output paid as labor compensation under a stated accounting definition.

See also: [income share](#); [monopsony power](#).

labor-market institution

A formal or informal rule shaping employment relationships, worker and firm choices, and labor-market outcomes.

See also: [collective bargaining](#); [bargaining power](#).

Flashcards

i Expandable web content

What is structural power?

Power arising from a person's or group's position in an interdependent system, such as the ability to interrupt a bottleneck.

i Expandable web content

What does a Lorenz curve show?

The cumulative share of income received by cumulative shares of people ordered from lowest to highest income.

i Expandable web content

What is the union voice effect?

Worker representation can improve communication, treatment, job satisfaction, problem solving, and potentially productivity.

i Expandable web content

Why evaluate institutions through several channels?

An institution can change incentives, insurance, bargaining power, matching, productivity, distribution, and employment at the same time.

Questions

Question 4.7. What is the chapter's main claim about power?

A. Power changes distribution but never efficiency B. Power can affect both the size of gains from cooperation and how they are divided C. Power is fully measured by union membership D. Institutions eliminate all conflicts

Exercise

Size and division of gains

Describe one institution that could change both productivity and distribution. State the mechanism, who might gain or lose, and what evidence would change your conclusion.

References

Answers to Questions

The website provides answer-specific feedback after each choice. This print key gives the correct option and the feedback attached to it.

Question 4.1: B. The union membership rate among wage and salary workers fell from 20.1% in 1983 to about 10% in the early 2020s

Correct. That is the descriptive pattern in the BLS series.

Question 4.2: A. The unemployed group receives no market income in the model

Correct. Adding people with zero market income increases the cumulative population share without increasing cumulative income.

Question 4.3: B. It raises the real wage and lowers employment

Correct. At unchanged productivity and PS, the higher WS intersects PS farther left.

Question 4.4: B. PS shifts down, employment and wages fall, and the owner share rises

Correct. The model links the lower PS equilibrium to a longer unemployment segment and smaller worker share.

Question 4.5: B. They can affect incentives, insurance, power, matching, productivity, and employment together

Correct. A single flexibility label conceals these channels.

Question 4.6: B. The measured average earnings differ under the stated definitions

Correct. Further evidence is needed to explain why.

Question 4.7: B. Power can affect both the size of gains from cooperation and how they are divided

Correct. Both distribution and production may change.