

Monopsony

AP Microeconomics | Unit 5 | one buyer of labor: MRC, the graph, and the comparison

1. Why one more worker costs more than the wage

A **monopsony** is a market with **one buyer**; in a labor market, one employer. It faces the whole upward-sloping supply curve: to hire more workers it must raise the wage *for everyone*.

workers	wage	total labor cost	MRC
1	\$3	\$3	\$3
2	\$4	\$8	\$5
3	\$5	\$15	\$7
4	\$6	\$24	\$9
5	\$7	\$35	\$11

The 4th worker is paid \$6, and the first three each get \$1 more: $MRC = 6 + 3 \times 1 = \$9$.

Marginal resource cost

For a monopsony, $MRC > W$ after the first worker. On the graph the MRC curve lies **above** the supply curve and rises faster.

2. The monopsony graph

Example. Supply $W = 2 + L$, so $MRC = 2 + 2L$; $MRP = 14 - L$.

Two steps, in this order

- Quantity:** where $MRP = MRC$. Here $14 - L = 2 + 2L$, so $L = 4$.
- Wage:** go *down* from that quantity to the **supply curve**. $W = 2 + 4 = \$6$.

The wage is *not* read at the crossing (\$10).

3. Against a competitive labor market

A competitive market ends where supply meets MRP: $2 + L = 14 - L$, so $L = 6$ and $W = \$8$.

	competitive market	monopsony
workers hired	6	4
wage	\$8	\$6

A monopsony pays a **lower wage** and hires **fewer workers**. Deadweight loss: $\frac{1}{2} \times (10 - 6) \times (6 - 4) = \$4$, the triangle between MRP and supply from 4 to 6 workers.

4. Monopoly in the mirror

	monopoly	monopsony
only one	seller	buyer
the extra curve	MR, below demand	MRC, above supply
quantity where	$MR = MC$	$MRP = MRC$
then go	up to demand: price	down to supply: wage
result	higher price, less output	lower wage, fewer workers

Where students lose points

1. Reading the wage at the $MRP = MRC$ crossing: go down to supply.
2. Drawing MRC below supply or on top of it: MRC is above supply.
3. Using wage = MRC: that is true only for a wage taker.
4. Mixing up monopsony (one buyer) and monopoly (one seller).
5. Saying a monopsony hires more or pays more than a competitive market.

Now practise it

Theory sticks once you use it. On **sad-academy.com** you'll find practice questions for this exact subtopic in the AP format, and an AI that grades your free-response answers against the scoring guidelines, the way an AP reader would.

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