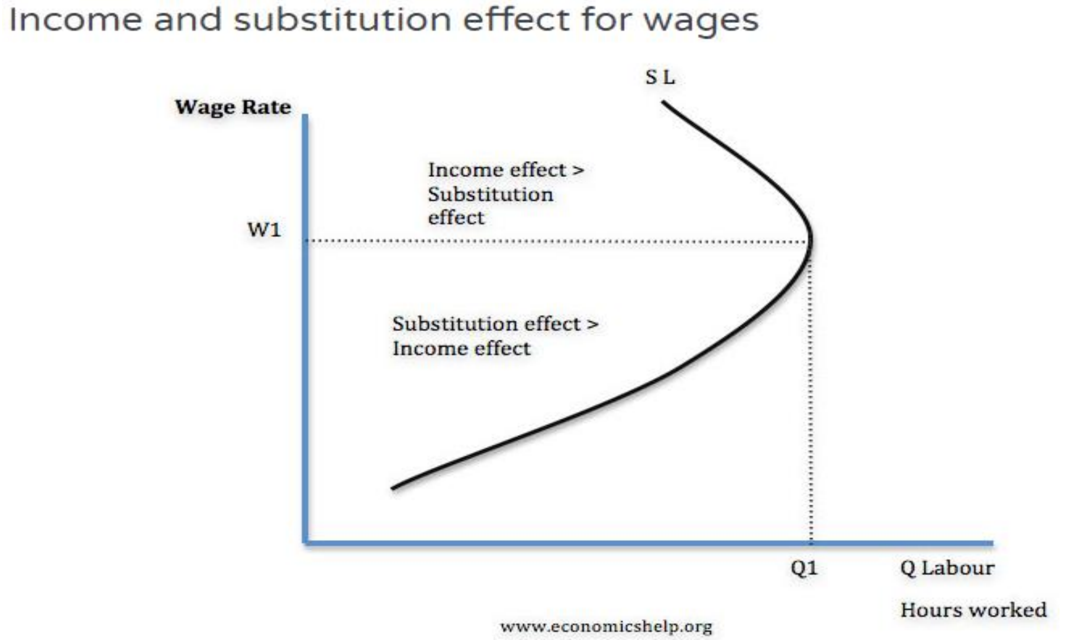
KEY CONCEPTS	
1. BACKWARDS BENDING SUPPLY CURVE OF LABOUR	A situation in which as real, wages increase beyond a certain level, people will substitute leisure for paid work and so higher wages lead to a decrease in the labour supply and so less labour-time being offered for sale.
2. INCOME EFFECT	How the price change effects consumer income. If price rises, it effectively cuts disposable income and there will be lower demand.
3. SUBSTITUTION EFFECT	An increase in the price of a good will encourage consumers to buy alternative goods. The substitution effect measures how much the higher price encourages consumers to use other goods, assuming the same level of income.
4. SUPPLY CURVE OF LABOUR	Higher wages usually will encourage a worker to supply more labour because work is more attractive compared to leisure.
5. MARGINAL COST OF LABOUR	The change in total labour costs from employing one extra worker.
6. MARGINAL PHYSICAL PRODUCT OF LABOUR	The change in output associated with a change in that factor, holding other inputs into production constant.
7. DIMINISHING MARGINAL RETURNS	The decrease in the **marginal** (incremental) output of a production process as the amount of a single factor of production is incrementally increased
8. DEMAND FOR LABOUR	The amount of **demand** for labour that an economy or firm is willing to employ at a given point in time.
9. MARGINAL REVENUE PRODUCTIVITY	The market value of one additional unit of output.
10. COMPETITIVE LABOUR MARKET	Here, the wage rate is determined in the industry, rather than by the individual firm, each firm is a wage taker
11. IMPERFECT LABOUR MARKETS	Workers or firms usually have the power to set and influence wages and therefore wages may be set to levels different than anticipated by MRP theory. Eg. Monopsony, Trade Unions, Discrimination, difficulty in measuring productivity, efficiency wages.
13. MONOPSONY	Just one buyer of labour in a market.
14. TRADE UNIONS	Provide an organisation for workers to have joint representation with their employers.
15. NATIONAL MINIMUM WAGE	Introduced to help increase incomes of the low paid. It has become more important in a labour market characterised by a decline in trade unions and growth of low paid service sector jobs.
16. THE LIVING WAGE	Paying a wage that is enough to live on is good for business, good for the individual and good for society.
17. RESERVATION WAGE	The lowest **wage** rate at which a worker would be willing to accept a particular type of job.
18. EFFICIENCY WAGE	The idea of the efficiency wage theory is that it may benefit firms to pay workers a wage higher than their marginal revenue product.
19. LABOUR MARKET FAILURE	The main types of **labour market failure** are the existence of skills gaps, poaching, **labour** immobility and inequality.
20. COMPENSATING WAGE DIFFERENTIALS	The additional amount of income that a given worker must be offered in order to motivate them to accept a given undesirable job, relative to other jobs that worker could perform. Eg. A deep sea diver.

BACKWARDS BENDING SUPPLY CURVE OF LABOUR

Workers will tend to **substitute income** for leisure as leisure has a higher **OPPORTUNITY COST** at higher wages. This effect leads to more hours being worked as wages rise.
The **SUBSTITUTION EFFECT** of higher wages means workers will give up leisure to do more hours of work because work has now a higher rewards.
The **INCOME EFFECT** of higher wages mean workers will reduce the amount of hours they work, because they can maintain a target level of income through less hours.

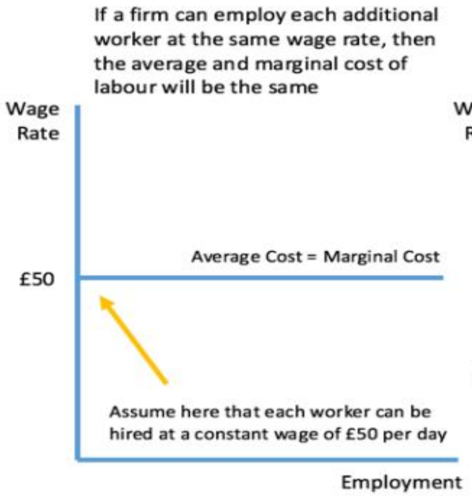


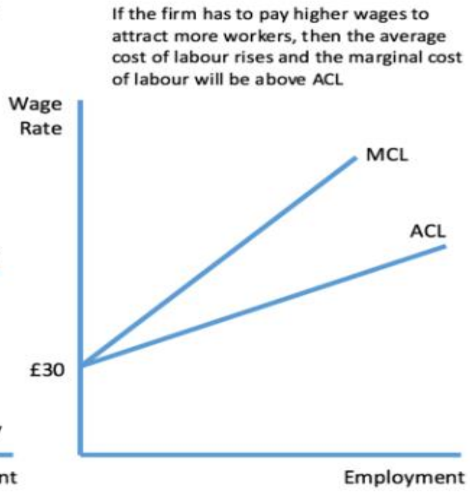
LABOUR SUPPLY CURVE

LABOUR SUPPLY CURVE	Higher wages usually will encourage a worker to supply more labour because work is more attractive compared to leisure. Therefore the supply curve for labour tends to be upwardly sloping.
POSITIVE RELATIONSHIP	As wages increase, this attracts a greater supply of labour
FACTORS THAT CAN SHIFT THE SUPPLY CURVE FOR LABOUR	1. Wage on offer in **substitute** occupations. 2. Barriers to entry 3. Non-monetary characteristics of the job 4. Improvements in the occupational mobility of labour 5. Overtime 6. Size of working population 7. Value of leisure time
FACTORS INFLUENCING THE ELASTICITY OF SUPPLY FOR LABOUR	1. Nature of skills and qualifications required to work in an industry 2. Specific skills and educational requirements make supply inelastic 3. Lengthy and costly training periods makes labour supply inelastic 4. When the minimum skill factor needed is relatively low, then the pool of available labour will be large, making labour supply elastic 5. Vocational nature of work - in vocational jobs such as nursing, people are less sensitive to changes in wages when deciding whether to work and how many hours to work 6. Time period – In the short run, the supply curve for labour to a particular occupation tends to be relatively inelastic It takes time for people to respond to changes in relative wages and earnings – especially if people need to be re-trained to enter a new occupation
SUPPLY OF LABOUR TO AN ECONOMY	Can be influenced by: 1. In the UK, only about 75% of people 16-64 are in employment; 2. Some of the retired could be brought back to work if there were incentives for them; 3. Immigration can expand the supply of labour. So the supply of labour to the economy as a whole is not **perfectly inelastic.**

LABOUR DEMAND & MRP THEORY

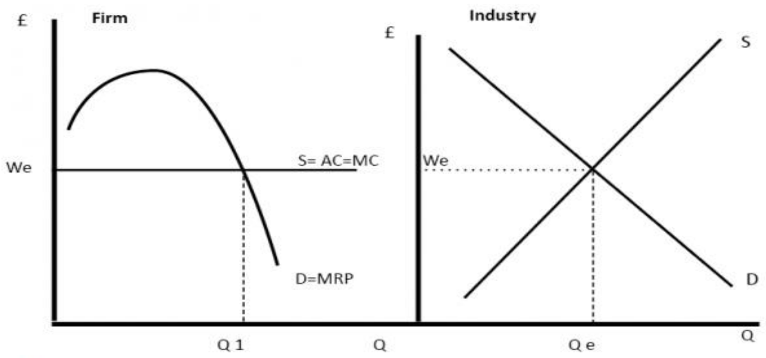
LABOUR DEMAND CURVE	Shows how many workers will be hired at any given wage rate over a period of time. LABOUT is a DERIVED DEMAND – derived from demand for the final good or service.
INVERSE RELATIONSHIP	There is an INVERSE (NEGATIVE) relationship between wage & quantity of workers. In the **SHORT RUN** due to the **LAW OF DIMINISHING MARGINAL RETURNS.** In the **LONG RUN** due to the **SUBSTITUTABILTY OF LABOUR & CAPITAL.**
MRP CALCULATION	**MPP X MR = MRP**
FACTORS THAT CAN SHIFT THE DEMAND CURVE FOR LABOUR	1. Change in the final price of the product the labour makes 2. Change in demand for the final product 3. Changes in labour productivity 4. Change in the price of capital.
FACTORS INFLUENCING THE ELASTICITY OF DEMAND FOR LABOUR	**Labour costs as a % of total costs**: When labour expenses are a high proportion of total costs, then labour demand is more elastic than a business where fixed costs of capital are the dominant business expense. **The ease and cost of factor substitution**: Labour demand will be more elastic when a firm can substitute quickly and easily between labour and capital inputs. Difficult for labour intensive firms e.g. Brompton bikes. **The price elasticity of demand for the final output produced by a business**: If a firm is operating in a highly competitive market where final demand for the product is price elastic, they may have little market power to pass on higher wage costs to consumers through a higher price.
MRP CRITICISMS	1. Difficulties in measuring **MRP** 2. Teamwork makes it difficult to measure **MRP** individually 3. Calculation for the self employed can be problematic 4. Imperfect labour markets – where **MRP** theory breaks down.



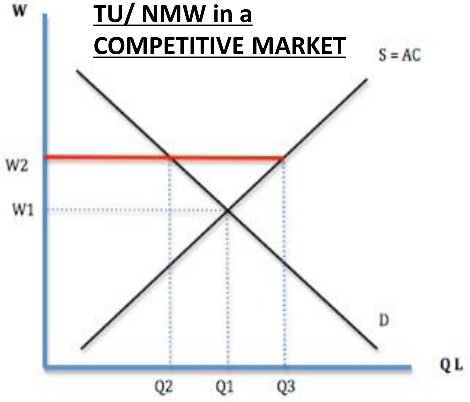


WAGE DETERMINATION IN A COMPETITIVE LABOUR MARKET	
COMPETITIVE LABOUR MARKET ASSUMPTIONS	1. There are many potential workers & employers 2. Labour is **HOMOGENOUS** 3. There is **PERFECT INFORMATION** 4. Firms are wage takers 5. There are no **BARRIERS TO ENTRY / EXIT**
WAGE DETERMINATIO N	1. The equilibrium wage rate in the industry is set by the meeting point of the industry supply and industry demand curves. 2. In a competitive market firms are wage takers because if they set lower wages, workers would not accept the wage. 3. Therefore they have to set the equilibrium wage We. 4. Because firms are wages takers the supply curve of labour is perfectly elastic therefore AC = MC 5. The firm will maximise profits by employing at Q1 where MRP of Labour = MC of Labour.
HENRY FORD	*"We want to get full value out of labour so that we may be able to pay it full value".*

Supply of labour in perfect competition

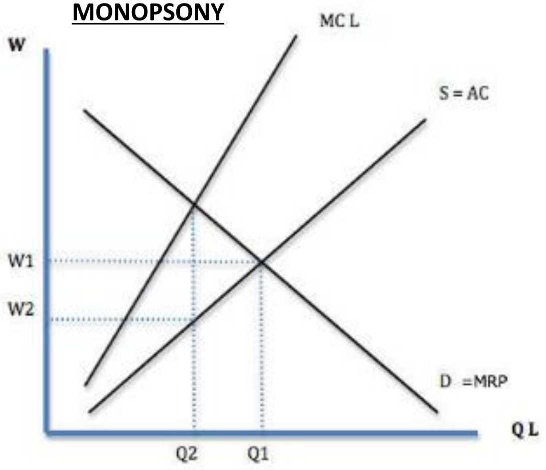


TU/ NMW in a COMPETITIVE MARKET

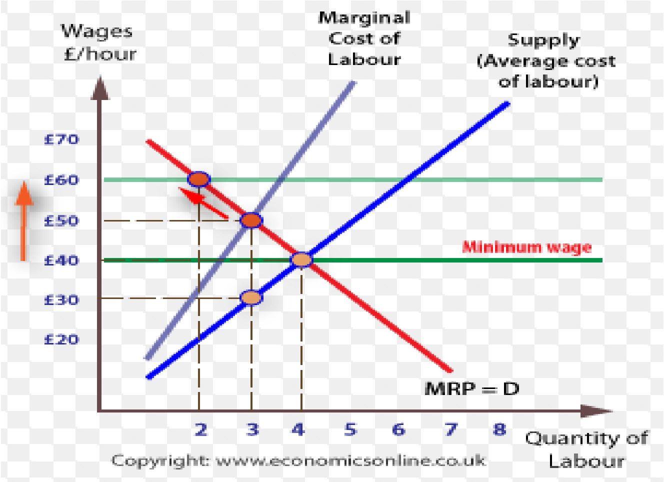


WAGE DETERMINATION IN A COMPETITIVE LABOUR MARKET	
EXPLANATION	Wage differentials do not exist in a perfectly competitive labour market. That they do exist implies that there are **IMPERFECT LABOUR MARKETS.**
EXAMPLES OF IMPERFECT LABOUR MARKETS	1. Labour is not **HOMOGENOUS –** Different MRPs, different supplies of labour, Discrimination. 2. Non-Monetary considerations – **COMPENSATING WAGE DIFFERENTIALS** 3. Labour is not perfectly mobile – Occupationally immobility, geographical immobility, lack of **PERFECT KNOWLEDGE** **4. TRADE UNIONS** & supply restrictions. **5. MONOPSONIES** & **WAGE SETTING** ability.
ADVANTAGES OF DIFFERENTIALS	1. Incentives to work hard, achieve good qualifications, skills, training. 2. Trickle down effect – Jobs – spending – Tax. 3. Encourages enterprise 4. Encourages work not welfare 5. Promotes efficient resource allocation
DISADVANTAGES OF DIFFERENTIALS	1. Income inequality – Impact on fiscal budget, welfare, growth & social costs. 2. Trickle down effect may not occur 3. Government solutions are limited if they are the **MONOPSONIST**
EVALUATION	1. How much **INEQUALITY** will be evident 2. Risks of **GOVERNMENT FAILURE** 3. **SHORT RUN vs LONG RUN** impact 4. TU or NMW impact upon firms' **DYNAMIC EFFICIENCY**. 5. Could TU's actually improve firm productivity by raising morale?

MONOPSONY



MONOPSONY & TU/ NMW impact at different levels



TRADE UNIONS (TU)

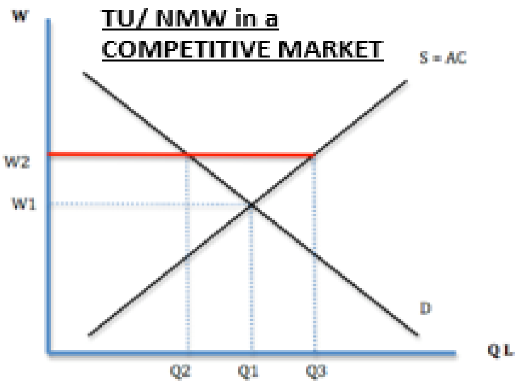
Provide an organisation for workers to have joint representation with their employers.

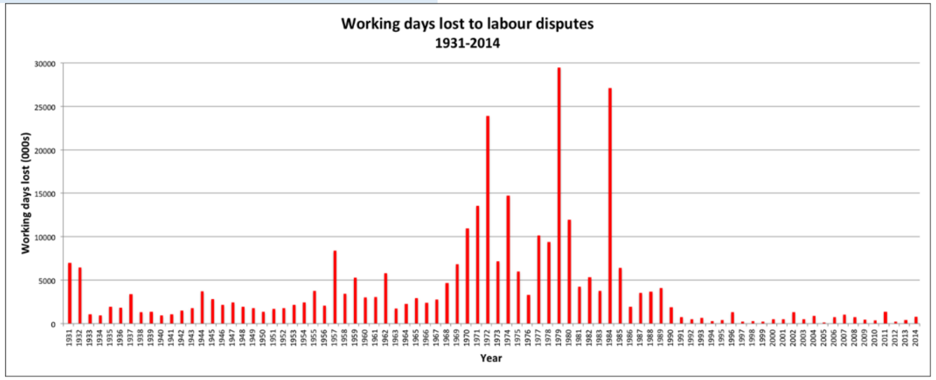
EXPLANATION	Trade unions act as **MONOPOLY SUPPLIERS OF LABOUR**; Critics argue that unions force up wages and therefore increase unemployment; However, neo classical theory also suggests unions can increase employment for **MONOPSONIST** employers.
COLLECTIVE BARGAINING	Negotiation of wages and other conditions of employment by a **TU**
ANALYSIS: TU IN A COMPETITIVE MARKET	Economic theory suggests that Wages will increase Meanwhile, employment will decrease In the Long run firms, may **SUBSTITUTE CAPITAL** for **LABOUR**
ANALYSIS: TU IN AN IMPERFECT MARKET	Economic theory suggests that a **TU** will increase both wages and employment where a **MONOPSONY** employer negotiates with a **MONOPOLY SUPPLIER** OF **LABOUR** (the **TU**). Furthermore some economists believe **unions** raise **efficiency** because they lower costs of production to the firm – here the **Trade Union** almost works as the personnel department for the firm. Improving working conditions may also improve worker motivation. However, if the **TU** demands too high a wage, employment will begin to fall. Therefore, they should only negotiate modest rises in wages.
EVALUATION	1. Impact likely to depend upon strength of **TU** power Membership & militancy which may be influenced by whether the demand curve for labour is relatively inelastic, the Profitability of the employer, **TU** concentration. **2.** **TU** & impact upon **ALLOCATIVE EFFICIENCY** depends upon their 'mark-up'. 3. Which labour markets dominate the UK economy & therefore will **TU** impact be favourable? 4. Real world evidence suggest TU power has been greatly reduced due to a). Legislation, b). Restructuring of UK economy, c). Competitive pressures. 5. Could a TU mark up reduce a **MONOPSONISTS DYNAMIC EFFICIENCY? GOV FAILURE** **6. TUs rarely survive in the private sector – why? Do they price their workers out of a market?**

NATIONAL MINIMUM WAGE (NMW)

Introduced to help increase incomes of the low paid. It has become more important in a labour market characterised by a decline in trade unions and growth of low paid service sector jobs.

EXPLANATION	The Low Pay Commission is an independent body that advises the government about the National Living Wage and the National Minimum Wage.	
ANALYSIS: NMW IN A COMPETITIVE MARKET	Economic theory suggests that Wages will increase Meanwhile, employment will decrease In the Long run firms, may **SUBSTITUTE CAPITAL** for **LABOUR**	
ANALYSIS: NMW IN AN IMPERFECT MARKET	Economic theory suggests that a **NMW** will increase both wages and employment. However, if the **NMW** is set too high, employment will begin to fall. Therefore, the **NMW** should only be set slightly above the equilibrium rate.	
NMW ADVANTAGES/ DISADVANTAGES	• Poverty alleviation • Reduce **differentials** • Incentive to work reduces '**voluntary unemployment'** • **Fiscal** benefit to government • Increased productivity – morale boost. • Incentive for firms to train up staff & increase their human capital. • Counter **MONOPSONIST** employers	• **Unemployment** but extent will depend upon **elasticity** • Youth lose out the most • Those not on NMW may ask for increased wages to keep differential • Costs to businesses – shutting down, lack of competitiveness • Regional variations • Impact upon government finances given state employees
EVALUATION	1. Impact will depend upon type of labour market & elasticities E.g. little or no impact on bankers, with little or no union membership, minimum wage earners etc. How easily can low paid be substituted for capital goods? 2. Will NMW just benefit second earners? Are in work benefits a better means of support for the poor? 3. Which labour markets dominate UK scene monopsony vs competitive? 4. Could the NMW reduce a **MONOPSONISTS DYNAMIC EFFICIENCY? GOV FAILURE?**	





MONOPSONY & TU/ NMW impact at different levels