

The demand for labour

A firm demand labour only if profits can be increased by employing more workers. This assumes that firms are able to sell the goods that these workers produce. This means that firms' demand for labour is not for its own sake, but is a consequence of demand for goods produced. We call this _____

No of workers	Total product (TP)	Price per unit	Total revenue (TR)	Marginal revenue product of labour (MRP _L)
1	1	£11.00	£11.00	-
2	4	£10.50	£42.00	£31.00
3	6	£10.00	£60.00	£18.00
4	8	£9.50		
5	10	£9.00		
6	12	£8.50		
7	14	£8.00		
8	16	£7.50		

What economic law describes the negative correlation between the Price and Quantity that will be bought?

What economic law describes changes in marginal returns that can be observed in the data?

How would you describe the change in the marginal return caused by the addition of an extra worker between

i) the 1st and 2nd worker? _____ ii) 7th and 8th worker? _____

Word bank:

Law of diminishing returns Derived demand Decreasing returns
 Law of demand Substitution effect Increasing returns

The supply of labour

In a market for labour there are six workers willing to sell their labour at varying hourly wages. The fact that more workers are willing to work at higher hourly wages is explained by the _____

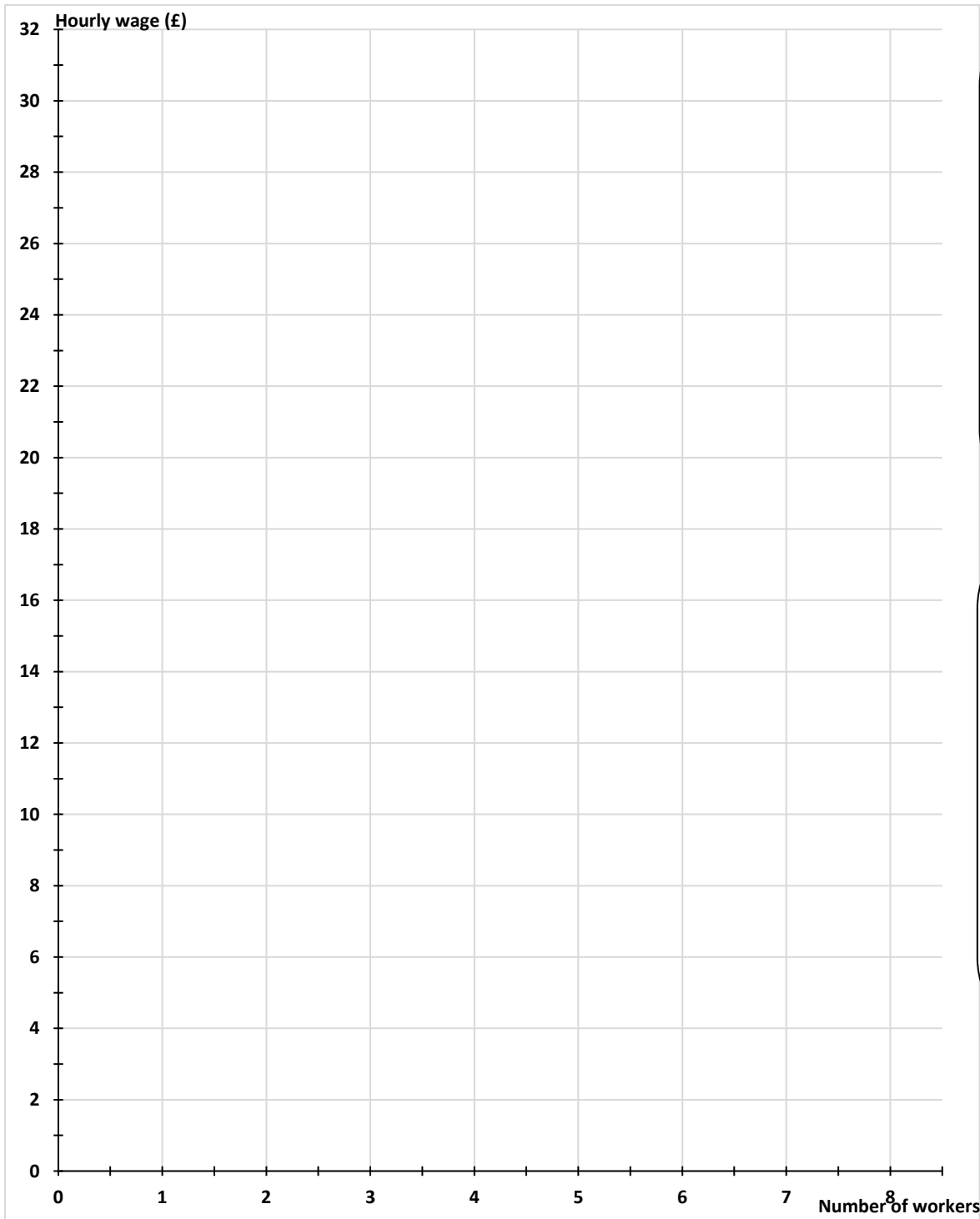
No of workers	Hourly Wage (AC _L)	Total wage	Marginal cost of labour (MC _L)	Unionised Hourly Wage (AC _{L2})	Unionised Total wage	Unionised Marginal cost of labour (MC _{L2})
1	£4	£4	-	£9	£9	-
2	£5	£10	£6	£9	£18	£9
3	£6	£18	£8	£9		£9
4	£7			£9		
5	£8			£9		
6	£9			£9		
7	£10			£10		
8	£11			£11		

The workers in this market decide to form a trade union.

They now all agree that no-one will work for an hourly wage of less than £9.

- 1) Calculate the total and marginal cost of each worker after unionisation.
- 2) Draw a new AC_L and MC_L curve on the axes.
- 3) What has happened to the profit maximising number of workers to employ?

4) What has happened to the total wage the firm must pay in order to obtain the profit maximising number of workers? _____



What is the wage elasticity of demand for labour (to 2 d.p.) when

- i) The number of workers demanded changed from 1 to 2? _____
- ii) The hourly wage rate changes from £5 to £11? _____
- iii) The hourly wage rate changes from £24 to £17? _____

Factor	Make wage elasticity of demand for labour more elastic or inelastic?
Relevant wage cost forms a large part of total production costs	
Demand for the product being produced by the labour is price inelastic	
It is not easy to substitute other factors of production for the labour currently employed	
In the long-run, as opposed to the short-run, since it often takes time for employers to adjust their methods of production	

What is the wage elasticity of supply for labour before unionisation when:

- i) The number of workers supplied changes from 1 to 3? _____
- ii) The hourly wage rate changes from £8 to £10? _____

What is the wage elasticity of supply for labour after unionisation when:

- i) The number of workers demanded changed from 1 to 3? _____
- ii) The hourly wage rate changes from £8 to £10? _____

Factor	Make wage elasticity of supply for labour more elastic or inelastic?
The supply of skilled labour rather than general unskilled labour	
An increase in the geographical mobility of labour	
There is persistent unemployment in the economy	
In the short-run, as opposed to the long-run	

In what direction would the following shift demand for labour?

- Demand for products increases _____
- Labour productivity improves _____

In what direction would the following shift supply of labour?

- Net emigration _____
- Increase in state retirement age _____