



# Labour Markets

Chapter 14  
SdP

# Learning objectives

- To know and understand the demand curve for labour and the factors affecting the demand of labour
- To know and understand the supply curve for labour and the factors affecting the supply of labour

# The Labour Market

- ⦿ Wages rate are the 'price' of labour: amount of money that has to be paid to people for them work for a period of time

*And like other prices they are determined by demand and supply operating in the labour market.*

In the labour market

- ⦿ firms are the buyers, they demand labour
- ⦿ households are the sellers, they supply labour

# Demand for Labour

- The demand for labour is a **derived demand**, which means that the quantity of labour demanded is derived from the demand for the product that the labour produces.



"This promotion means you'll be getting the blame directly from me."

# What affects the demand of labour?

## *Movement along the curve*

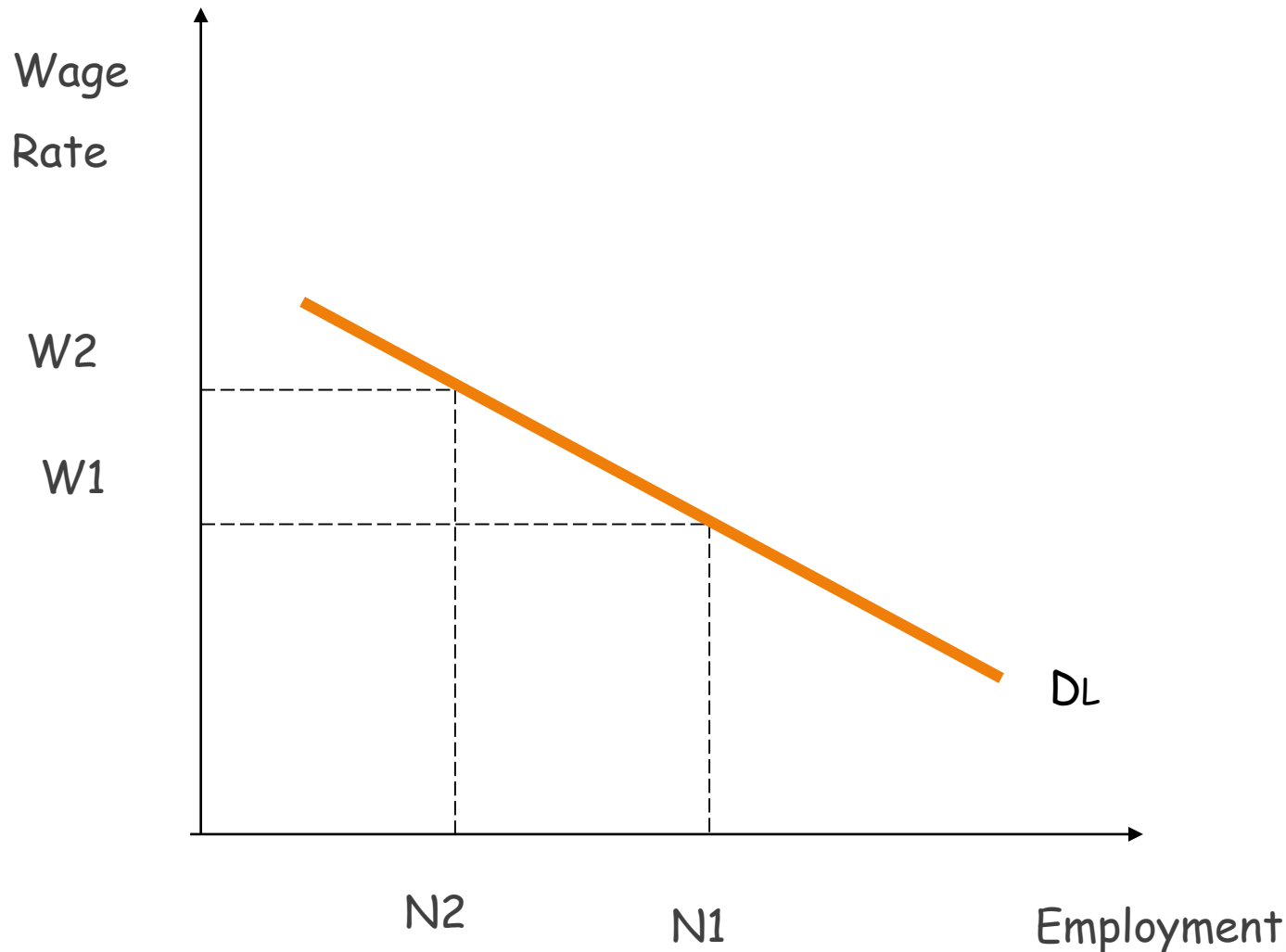
- ⦿ The Wage Rate

## *Shift in the demand curve*

- ⦿ Consumer demand for the goods/ services that the labour creates
- ⦿ Productivity of workers
- ⦿ Cost and availability of substitutes for labour (replace labour with machines)
- ⦿ Other costs of employment (eg. Govt regulation regarding health and safety, national insurance contributions)

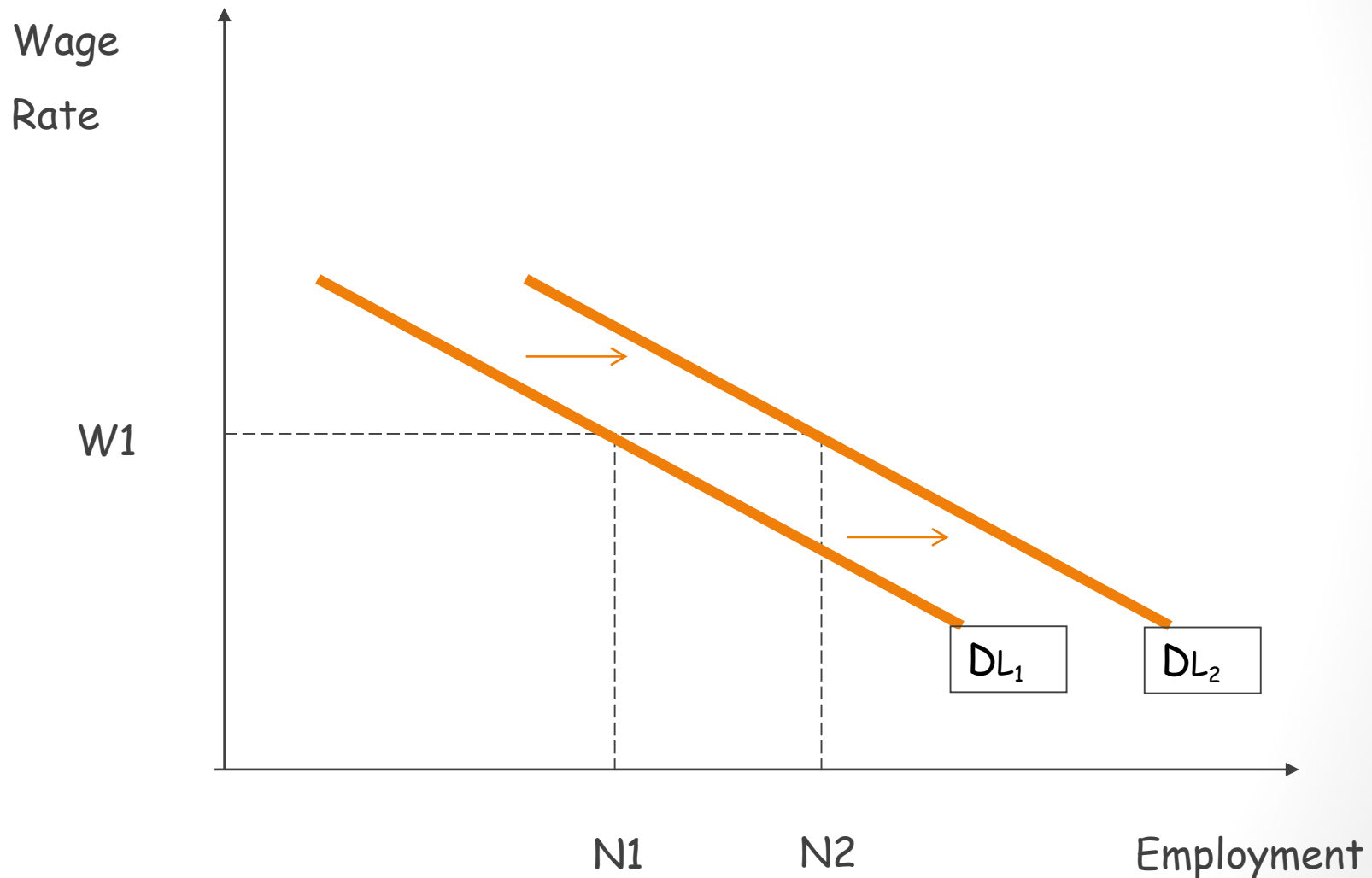
# Demand for Labour

Movement along the curve



# Demand for Labour

Shift in the demand curve



# Supply for Labour

- This refers to the total number of people who are willing and able to work in a given industry at a given wage rate.





# What affects the supply of labour?

## *Movement along the curve*

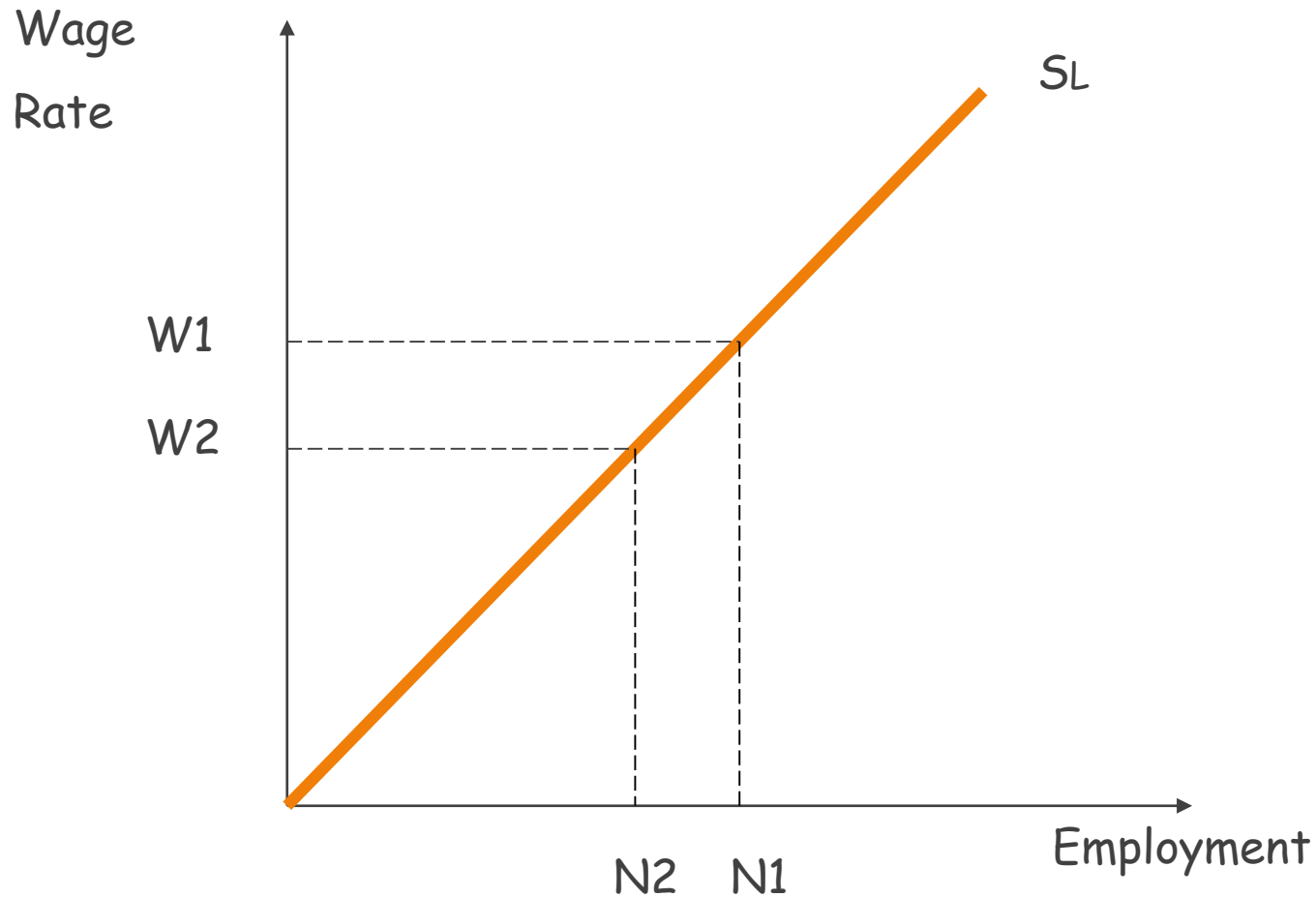
- ⦿ The Wage Rate

## *Shift in the supply curve*

- ⦿ Changes in school leaving age or the retirement age
- ⦿ The size of the working population (the number of people of working age willing and able to work)
- ⦿ Age distribution of the overall population (dependency ratios)
- ⦿ Immigration

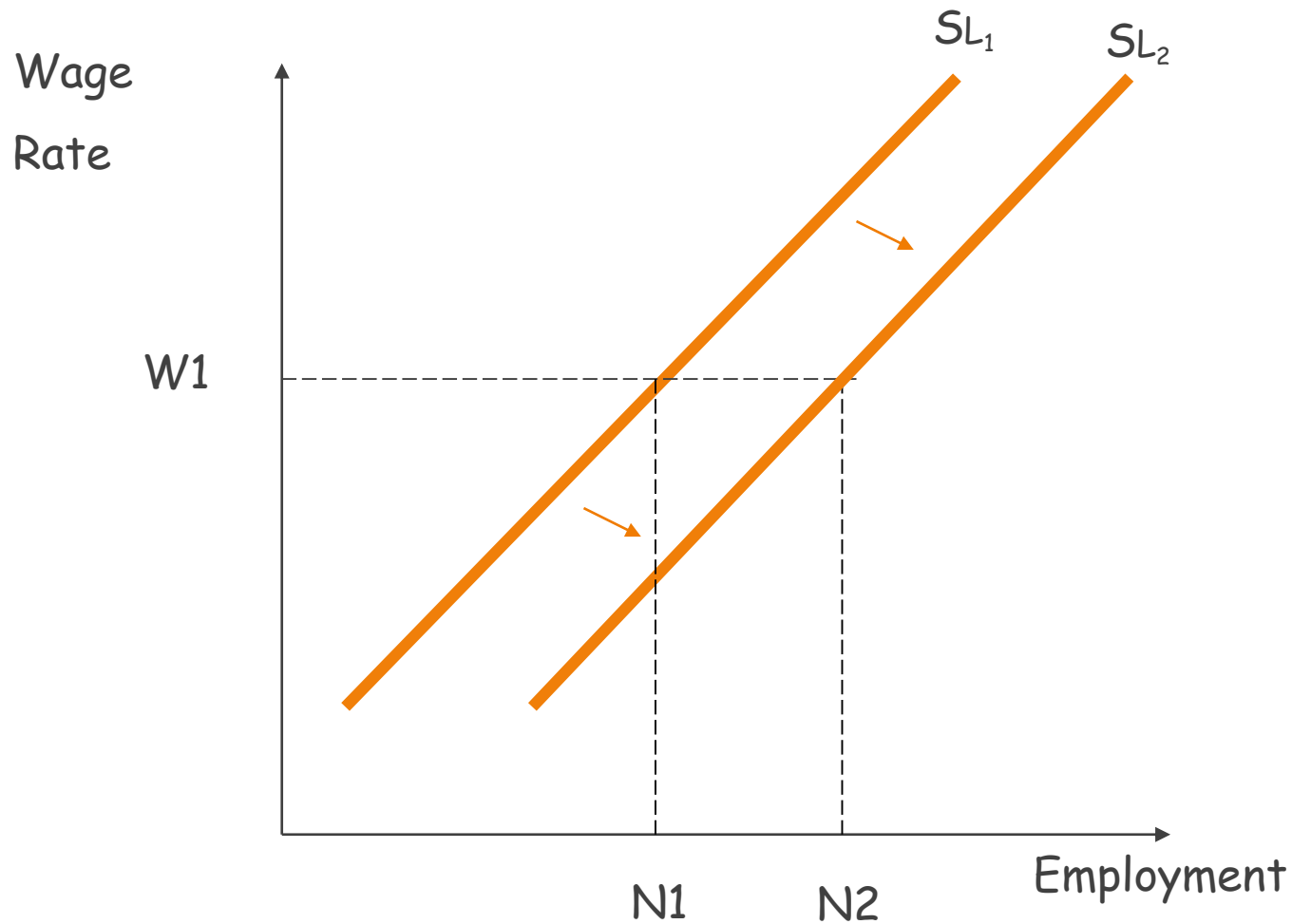
# Supply for Labour

Movement along the curve



# Supply for Labour

Shift in the supply curve



# Pause

for an exercise

## BHP BILLITON

□ Question 1, Page 59, Text Book.

# Pause

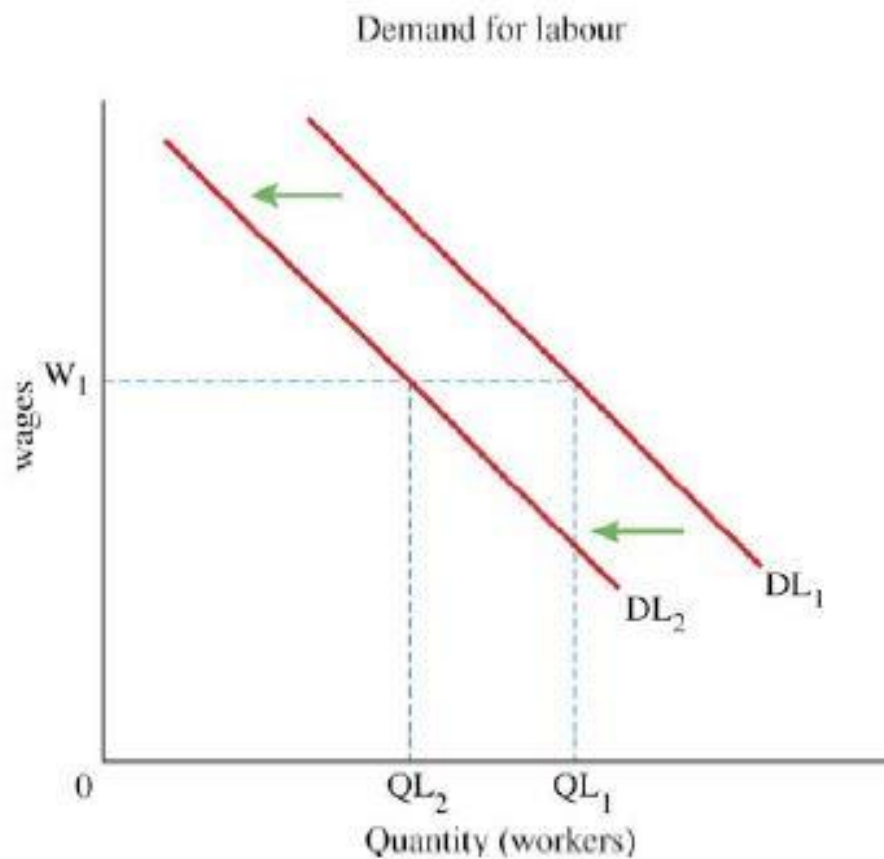
## for an exercise

### Question 1:

- (a) The demand for labour is said to be a derived demand. This means that the demand for labour is derived from the demand for the goods and services supplied by businesses. In this case, BHB Billiton is having to lay off workers due to the falling demand for its products. The falling demand for its products is resulting in a falling demand for labour.
- (b) The fall in demand for BHB Billiton's products means that the firm's demand for labour will also fall. This will cause the demand curve for labour to shift to the left. In the diagram below the demand for labour has shifted to the left from  $DL_1$  to  $DL_2$ . At the wage rate  $W_1$ , the demand for labour by Billiton has fallen from  $QL_1$  to  $QL_2$ .

# Pause

for an exercise



# Learning objectives

- How wage rate is determine?
- Welcome to the equilibrium wage.
- Why different industries and different occupations have different wages?
- The importance of quality of labour



# Wage determination

The Wage Rate is determined by the interaction of the supply and demand for labour.

## *Equilibrium wage...*

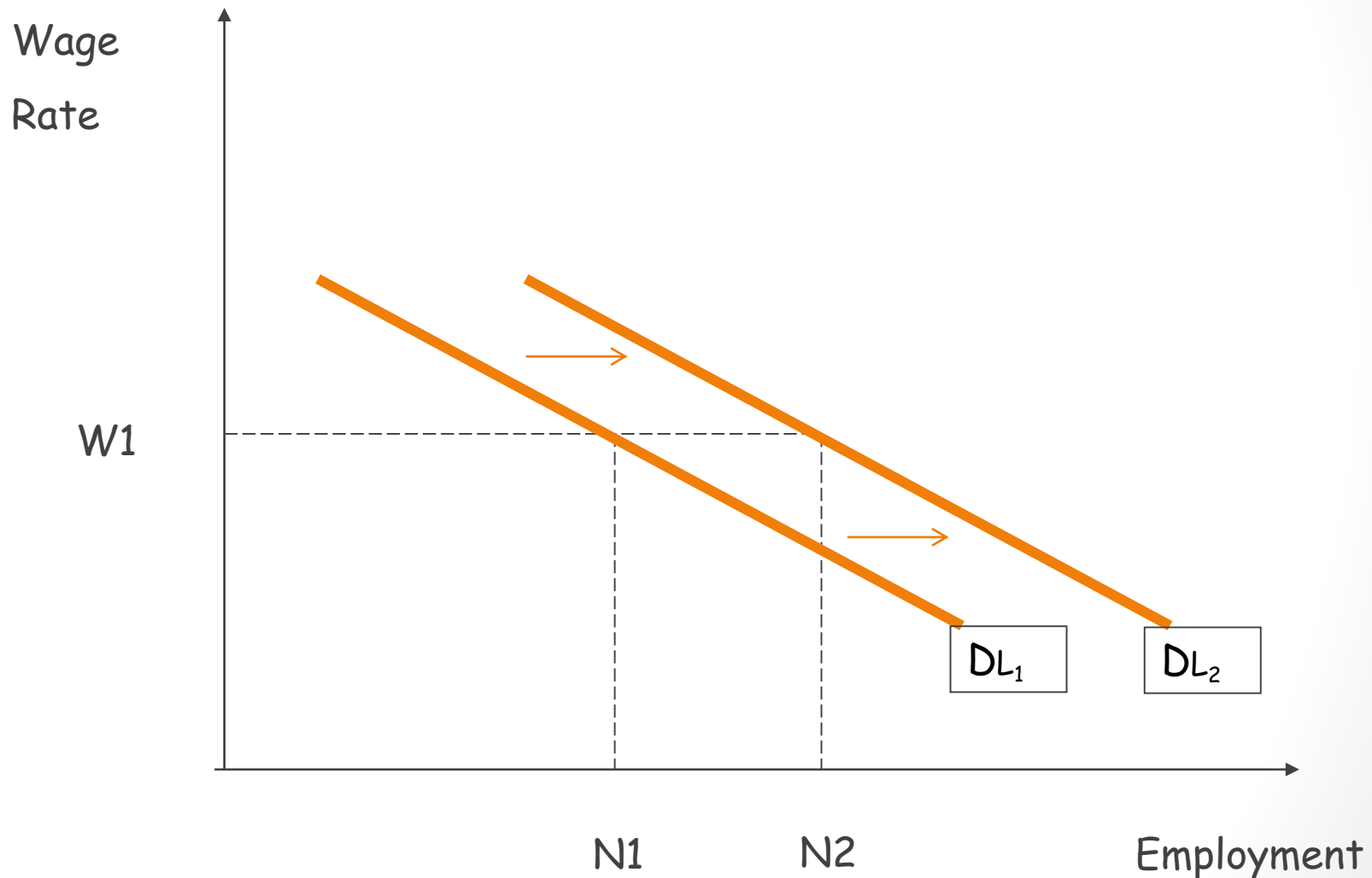
... is determined where the supply of labour and demand for labour is equal.

A change in supply or demand for labour will change the equilibrium wage rate.

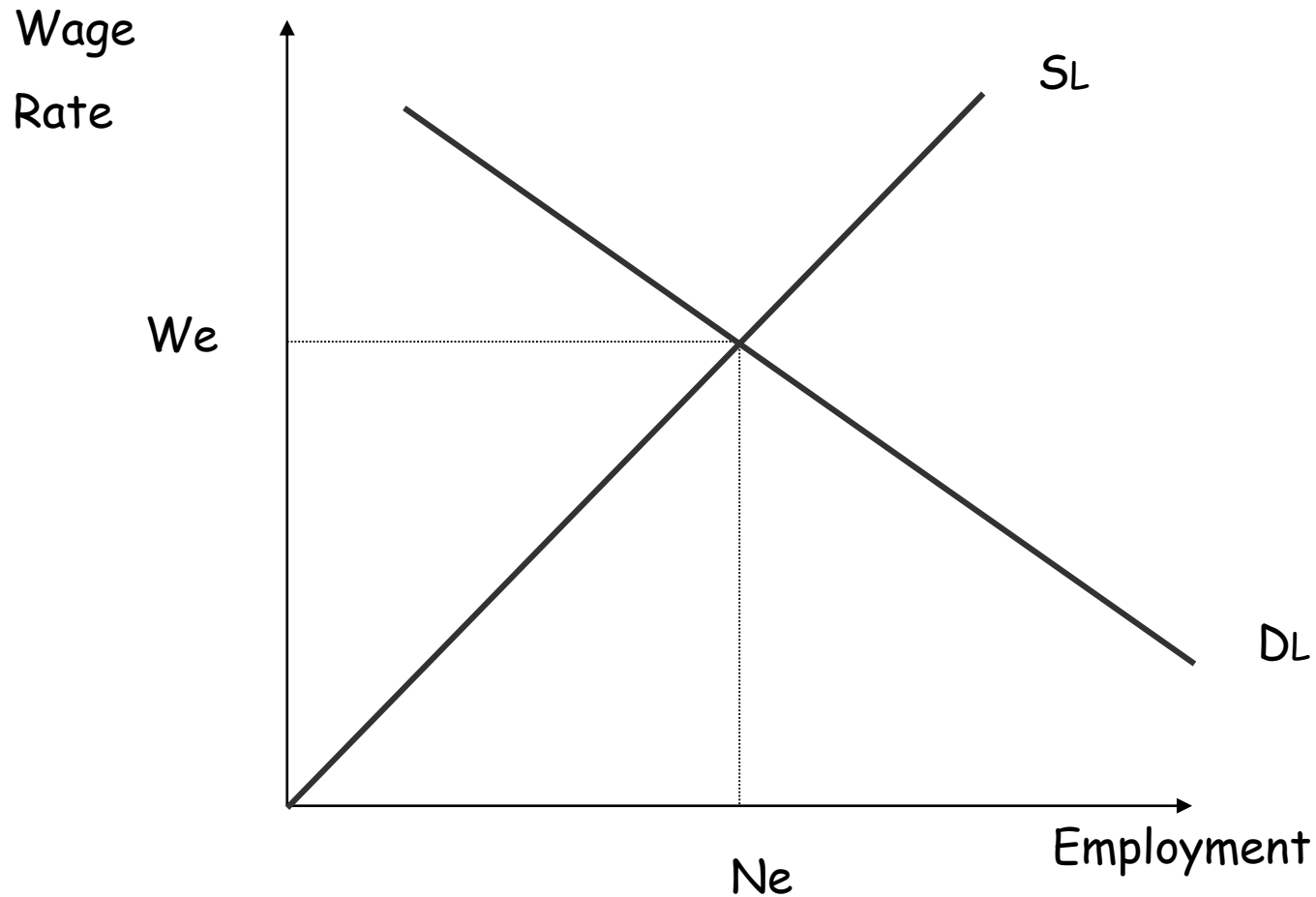


# Demand for Labour

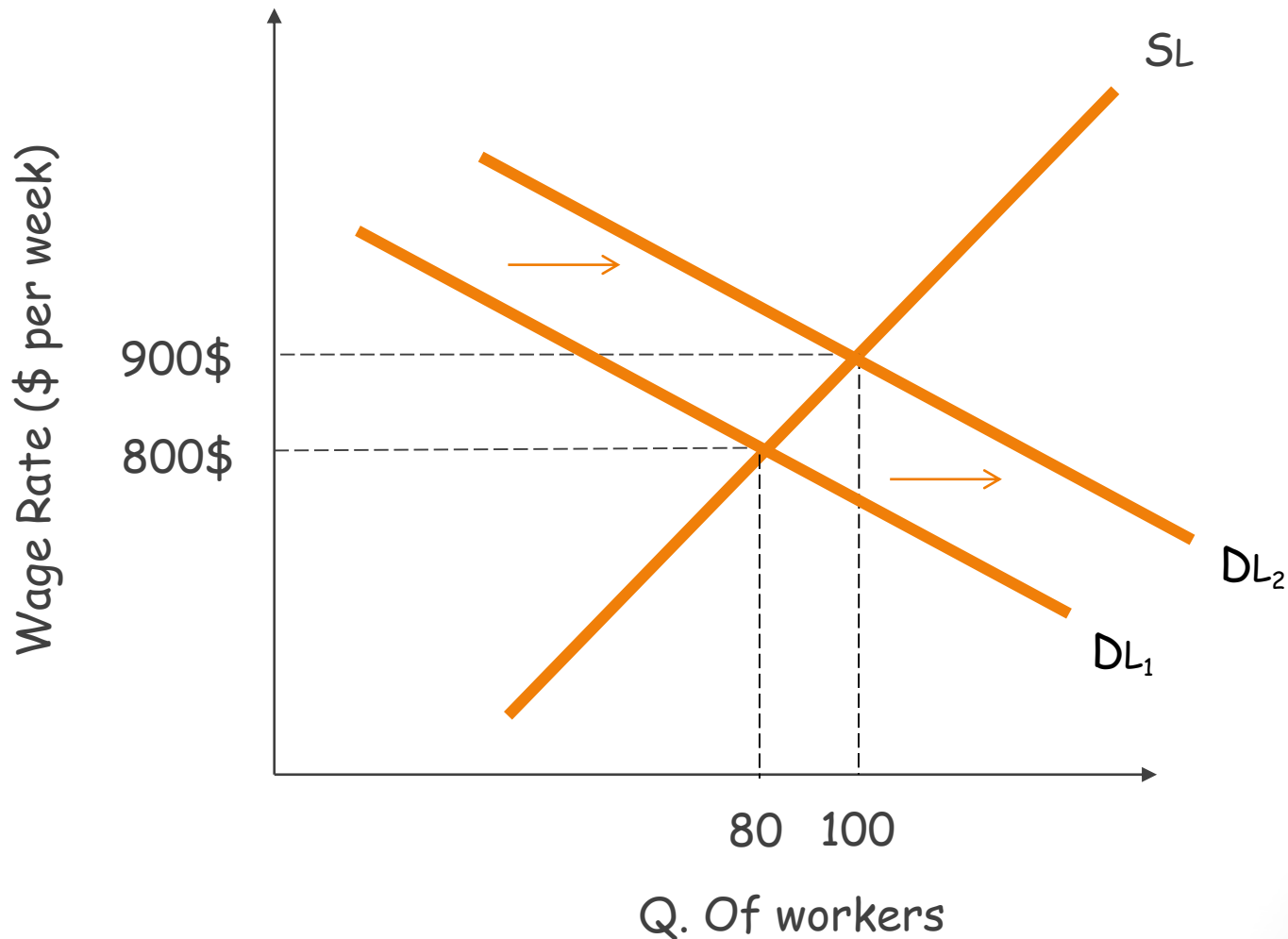
Shift in the demand curve



# Wage determination



# Wage determination



# Wages different between different occupations

Why different industries and different occupations have different wages?

- ❖ There will be a greater supply of workers in jobs which require no skill, training, qualifications, experience or special talent.
- ❖ Some jobs have limited supply of workers: dangerous, unpleasant, .... (e.g.: mine clearance, deep-sea diving)
- ❖ Wages will tend to be higher in expanding industries.
- ❖ Public sector usually offers lower wages because is more secure and offers other benefits.
- ❖ Workers in trade union may get higher wages than those who are not.

# Wages different between different occupations

Job Title	Small Mines (10 mines)	Large Mines (47 mines)
	Average (US\$ per hour)	Average (US\$ per hour)
Surface Mines		
Electrician	27.74	29.79
Mechanic	23.93	29.71
Welder	24.75	28.45
Helper	21.95	25.78
Underground Mines		
Electrician	29.93	27.52
Mechanic	28.40	26.87
Welder	26.24	26.26
Helper	25.63	25.46

# Wages different between different occupations

**TABLE 2. Summary of Annual Base Salaries for Selected Job Titles: All U.S.** Extracted from *U.S. Metal & Industrial Mineral Mine Salaries, Wages & Benefits, 2011 Survey Results*.

U.S. \$ per year

	<b>Total</b>	
<b>Number of Mines:</b>	93	
<b>Job Title:</b>	<b>Range</b>	<b>Average</b>
<b>General Manager</b>	\$34,600 - 250,000	\$150,400
<b>Mine Manager</b>	42,000 - 198,000	106,900
<b>Mine Superintendent</b>	37,500 - 146,400	88,500
<b>Mine Foreman</b>	25,000 - 115,300	73,800
<b>Mine Engineer</b>	43,700 - 111,000	72,700
<b>Mine Geologist</b>	37,400 - 104,000	68,600

# Quality of labour



# Quality of labour

When companies (firms ;) ) hired, the quality of labour is also important!!

Usually employers will want to recruit people who are literate, numerate and with good communication skills.

Specialist skills / well educated / trained / more productive.

The responsibility for education and training in most countries is divided between state and firms.



Teachers are important!! ;)

Do you agree with me now?



# Pause

for an exercise

## Question 2

□ Page 61, Text Book.

# Homework

for practice

## 1) Wages in Norway

□ Economics in practice, Page 63, Text Book.

2) Write the key terms in you exercise book.