
LABOUR MARKET

STUDY UNIT 11

STUDY OBJECTIVES

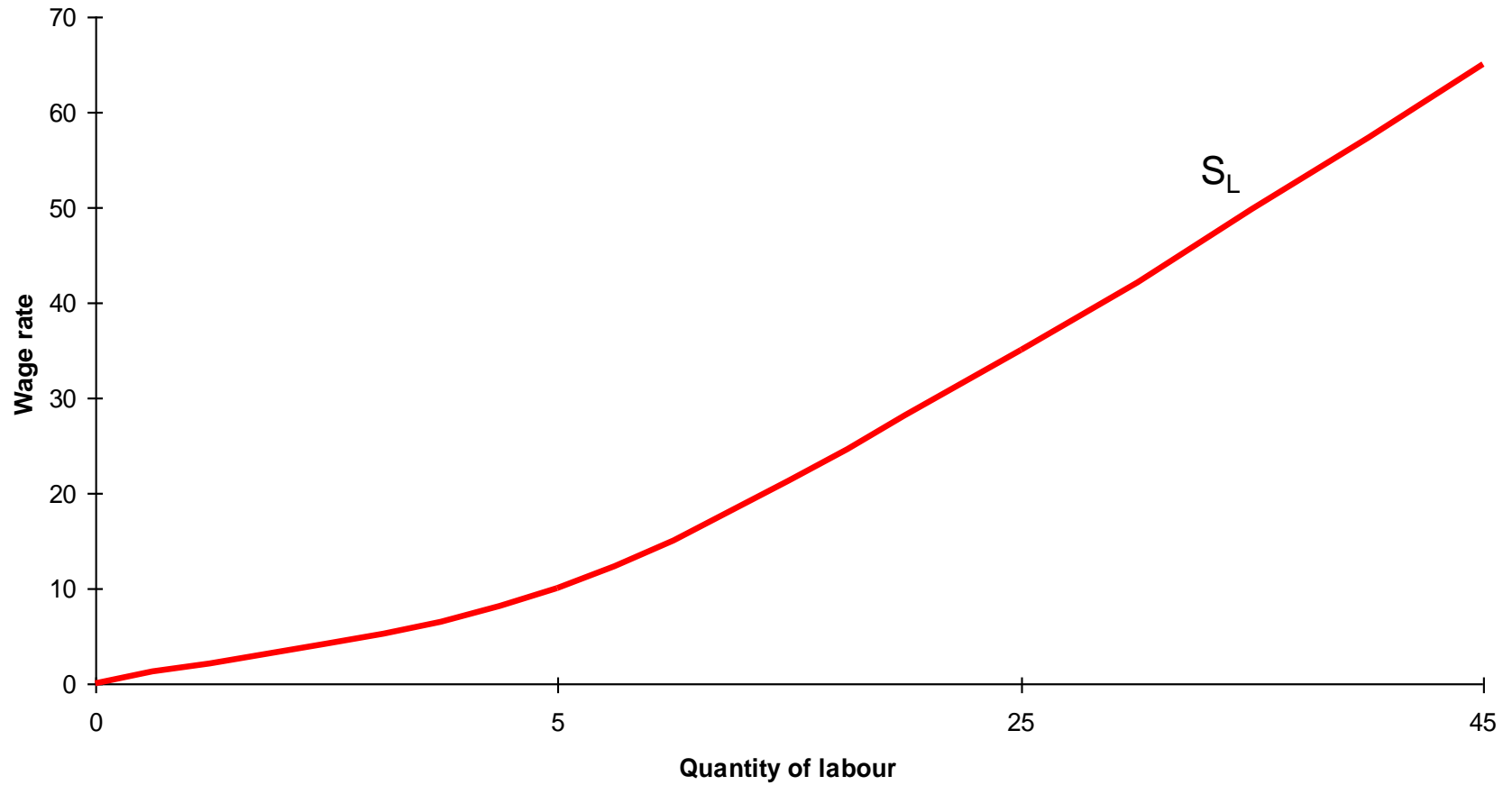
- **Identify major differences between labour market and goods market.**
- **Explain the determinants of labour supply**
- **Explain how labour demand is derived**
- **Provide reasons for differences in wages & salaries between individuals and occupations**
- **Explain what is meant by the informal sector**
- **Discuss the role of trade unions**

Characteristics (requirements) of a perfectly competitive labour market

6 requirements relating to:

1. pricing,
2. skills,
3. mobility,
4. knowledge,
5. competition
6. govt. intervention

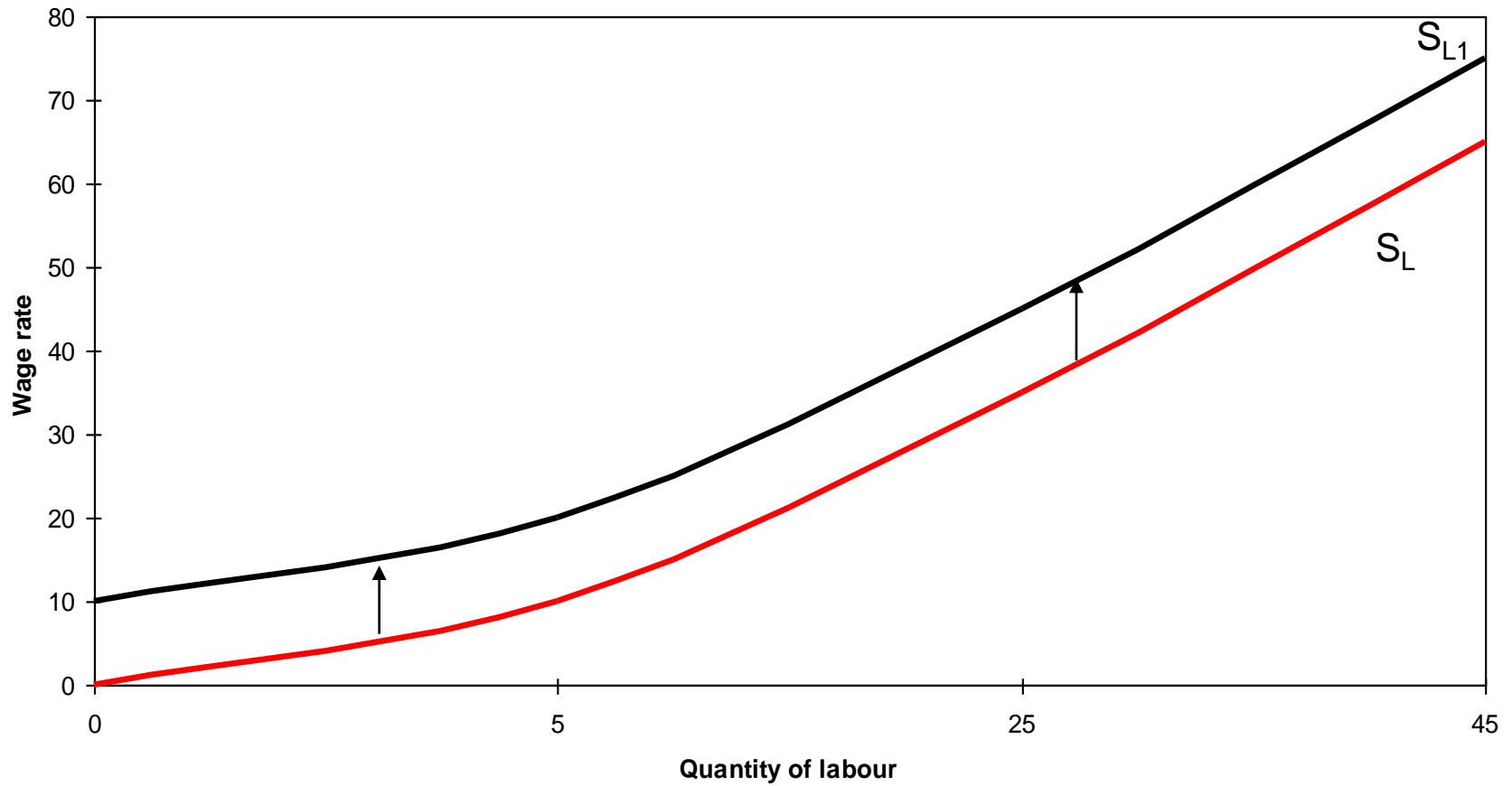
MARKET SUPPLY - LABOUR



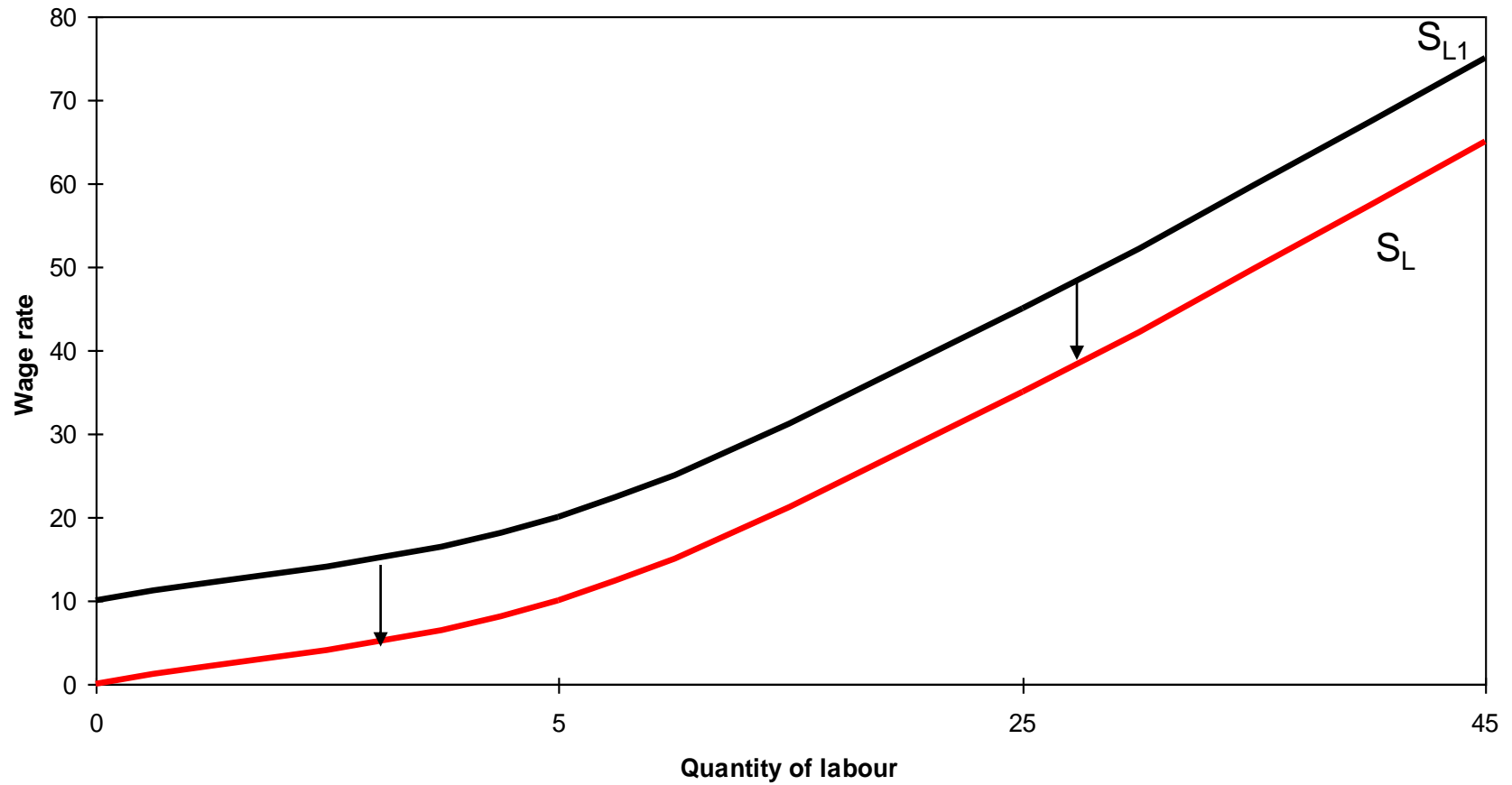
SUPPLY OF LABOUR

- **Market supply of labour will shift entirely as a result of:**
 - A change in population due to a change in birth or death rates.
 - A change in the labour force participation rate
 - A change in migration
 - Trade union action.
 - HIV/AIDS
 - A change in wages in other occupations

DECREASE IN THE MARKET SUPPLY - LABOUR



INCREASE IN THE MARKET SUPPLY - LABOUR



SUPPLY OF LABOUR

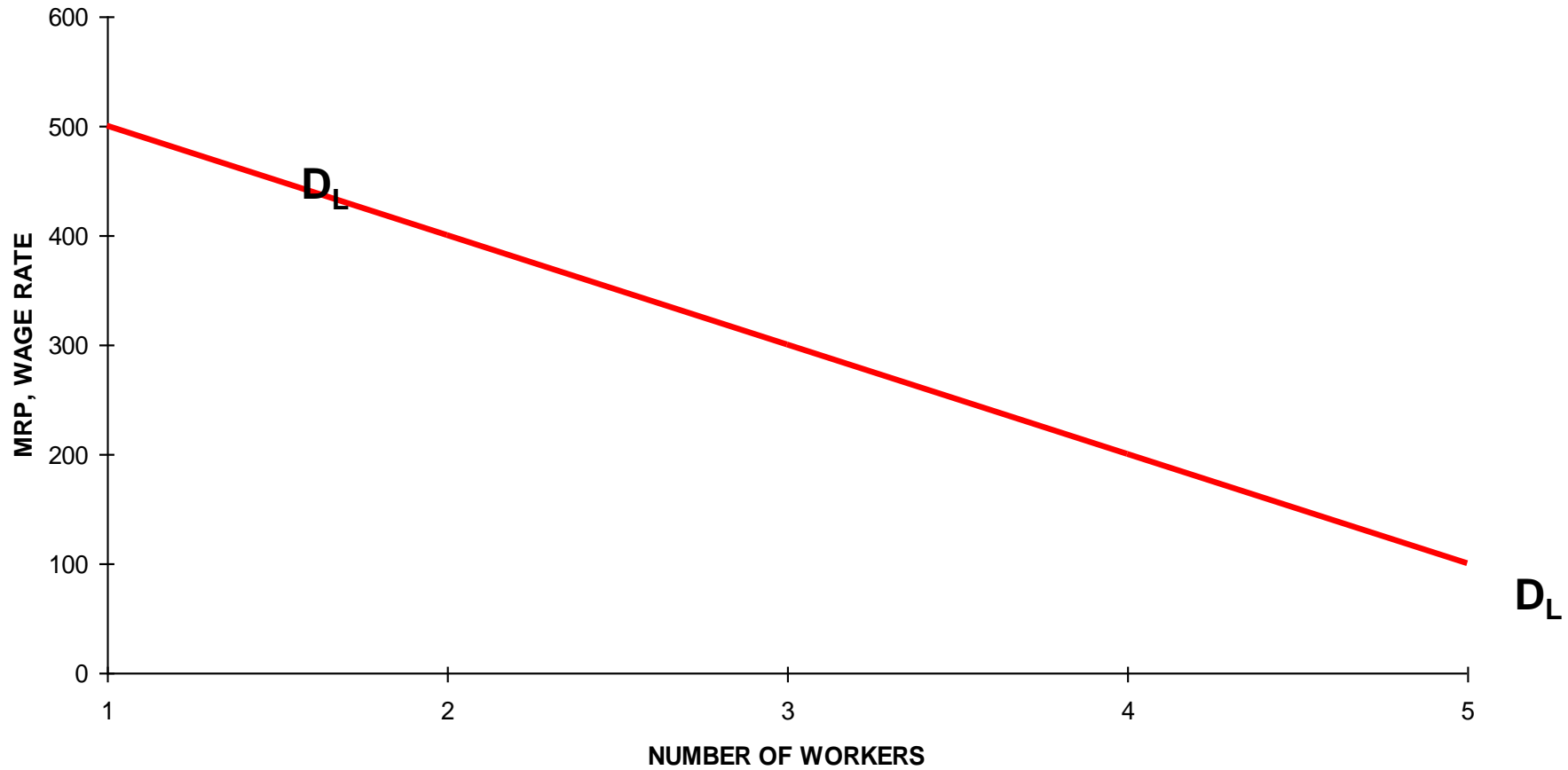
- **Total supply of labour**

- **Definition** of labour force/**economic active population**.
- Includes employed and unemployed people
- Includes the formal and informal sector
- Size of labour force determined by **size and growth of population** and the propensity to participate in the labour force as reflected by the **labour force participation rate**.

DEMAND FOR LABOUR: Individual demand for labour

- **Derived demand -**
 - **Labour is employed for the sake of goods and services that can be produced by labour.**
 - **Demand for labour will exist as long as there is demand for goods and services.**

DEMAND FOR LABOUR



DEMAND OF LABOUR

- **Factors causing a shift in labour demand curve:**
 - A change in number of firms
 - A change in the price of the product - change the MRP and therefore labour employed.
 - A change in MPP (or productivity) affects MRP.
 - A change in the prices of the other factors of production.
 - Profit of firms
 - International trade
 - A New substitute for labour – ATM's, Computers

DEMAND OF LABOUR: **important issues**

- **Marginal physical product (MPP)** indicates physical value of employing additional worker.
- **Wage rate** represents the cost of an additional worker.
- **MRP** determines the monetary value of an additional worker.
 - **$MRP = MPP \times P$**

WHEN

- **$MRP > Wage$ → employ additional worker**
- **$MRP < Wage$ → do not employ additional worker**

Deriving marginal revenue product of labour

No. of labourers	Total Physical Product	MPP ($\Delta TP/\Delta Q$)	Price	MRP (MPP x P)
0	0	0	50	0
1	10	10	50	500
2	18	8	50	400
3	24	6	50	300
4	28	4	50	200
5	30	2	50	100

Deriving marginal revenue product of labour

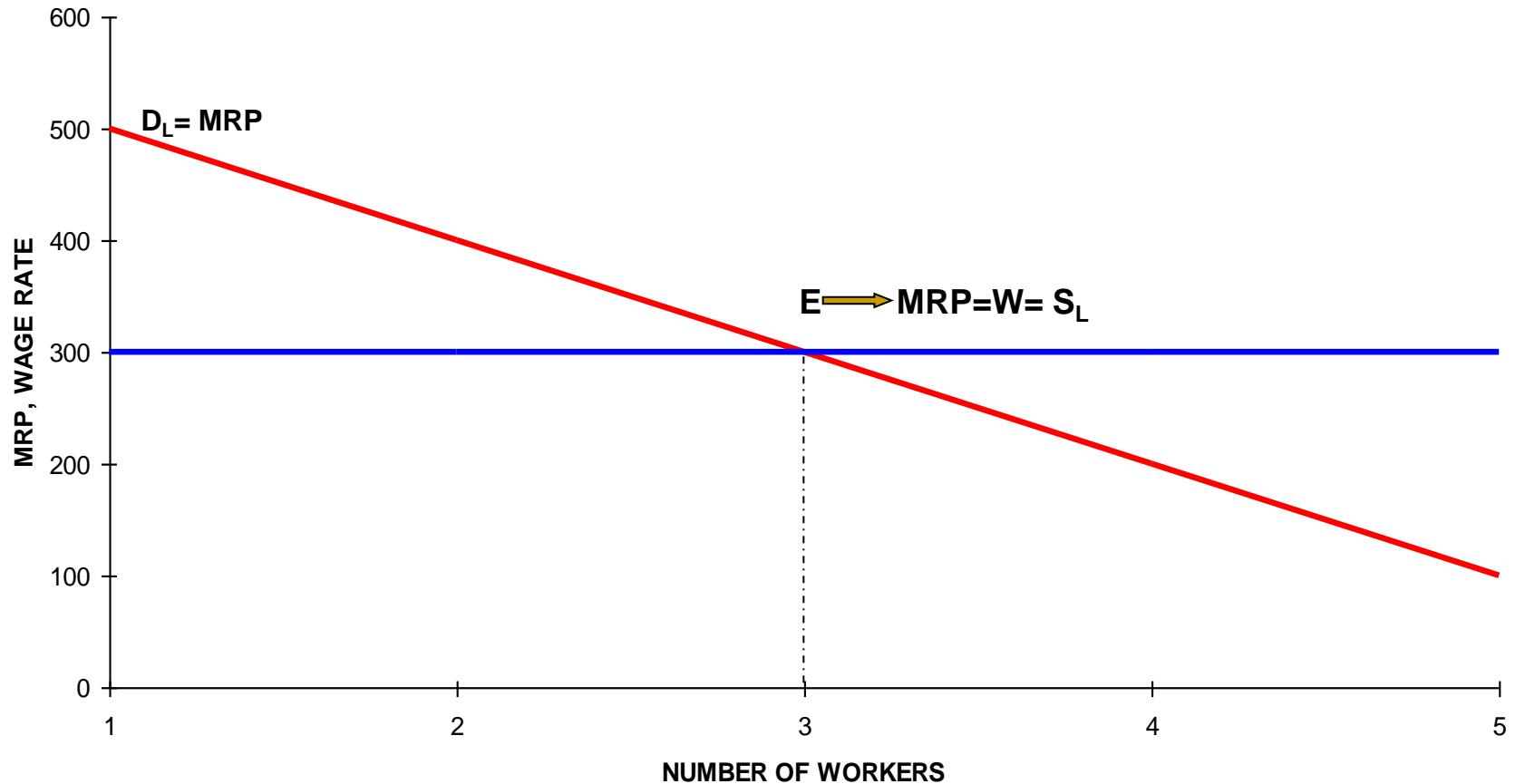
No. of labourers	Total Physical Product	MPP ($\Delta TP/\Delta Q$)	Price	MRP (MPP x P)
1	1000			7000
2		800		
3	2500			
4		600		
5	3600			
6	3600			
7	3500			

Deriving marginal revenue product of labour

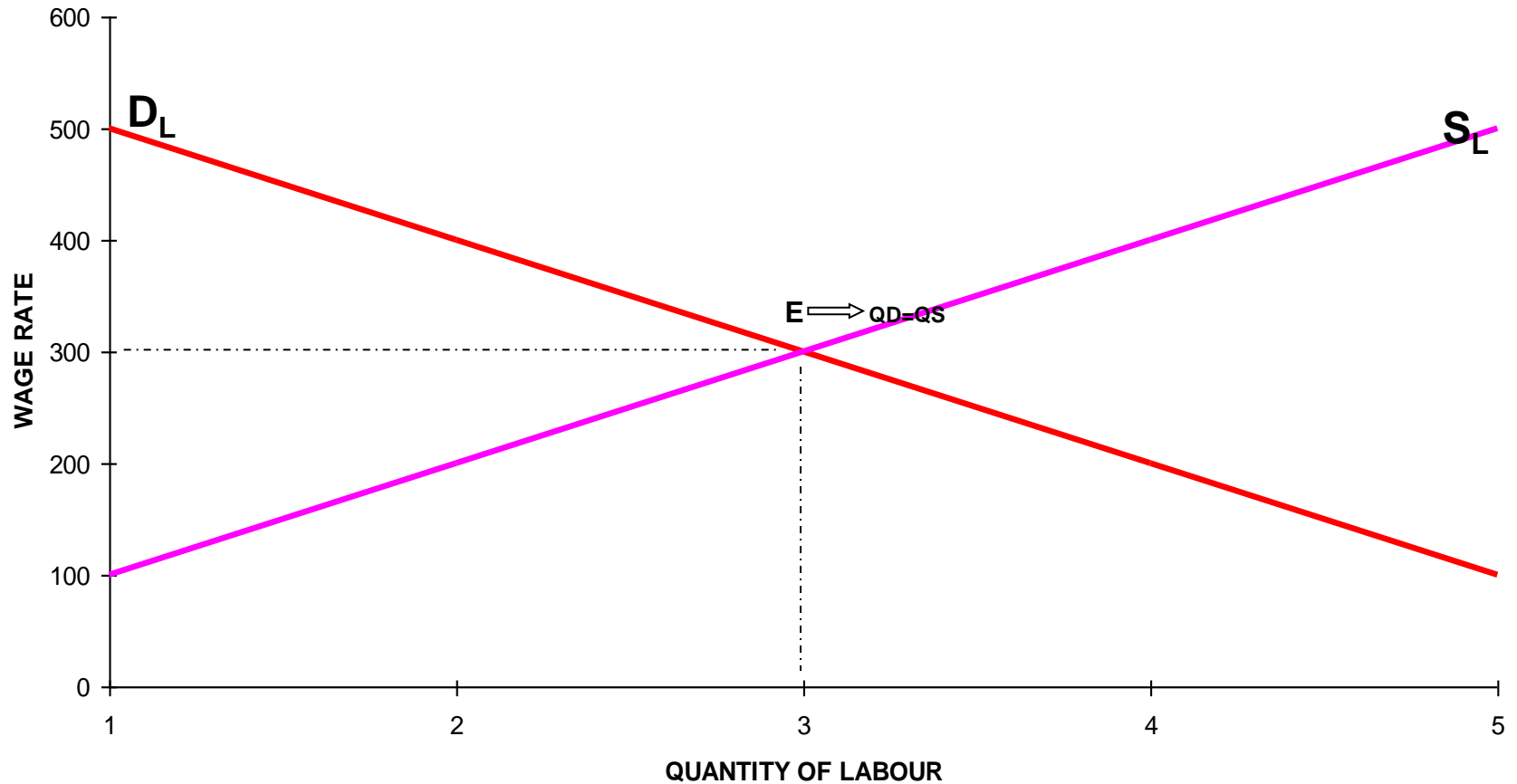
No. of labourers	Total Physical Product	MPP $\Delta TP/\Delta Q$	Price	MRP (MPP x P)
1	1000	1000	7	7000
2	1800	800	7	5600
3	2500	700	7	4900
4	3100	600	7	4200
5	3600	500	7	3500
6	3600	0	7	0
7	3500	-100	7	-700

Equilibrium condition for a **firm** that operates in a perfectly competitive labour market ($MRP = Wage$)

Assume that wage rate is R300

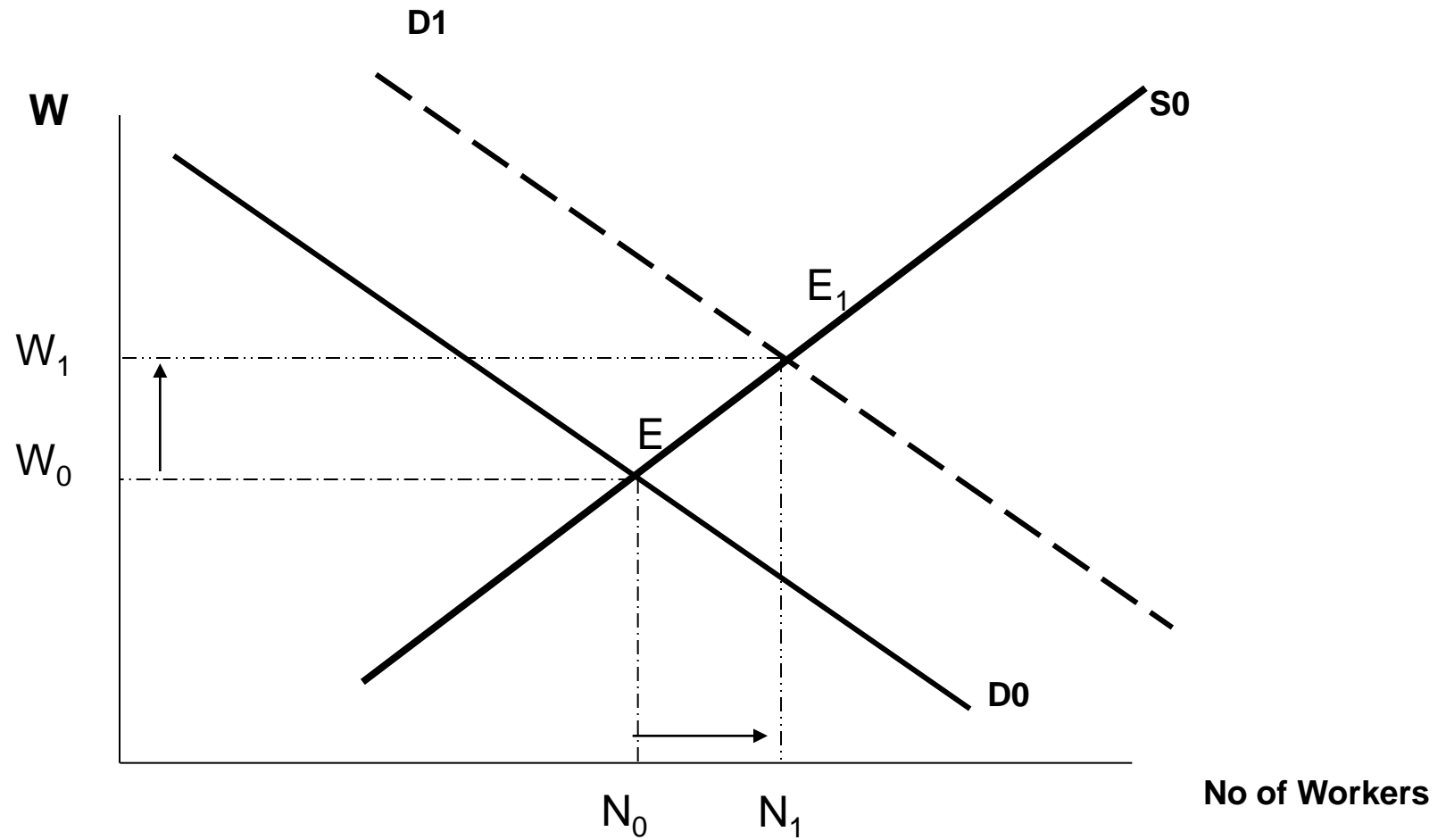


EQUILIBRIUM IN THE PERFECTLY COMPETITIVE LABOUR MARKET ($QD_{\text{LABOUR}} = QS_{\text{LABOUR}}$)



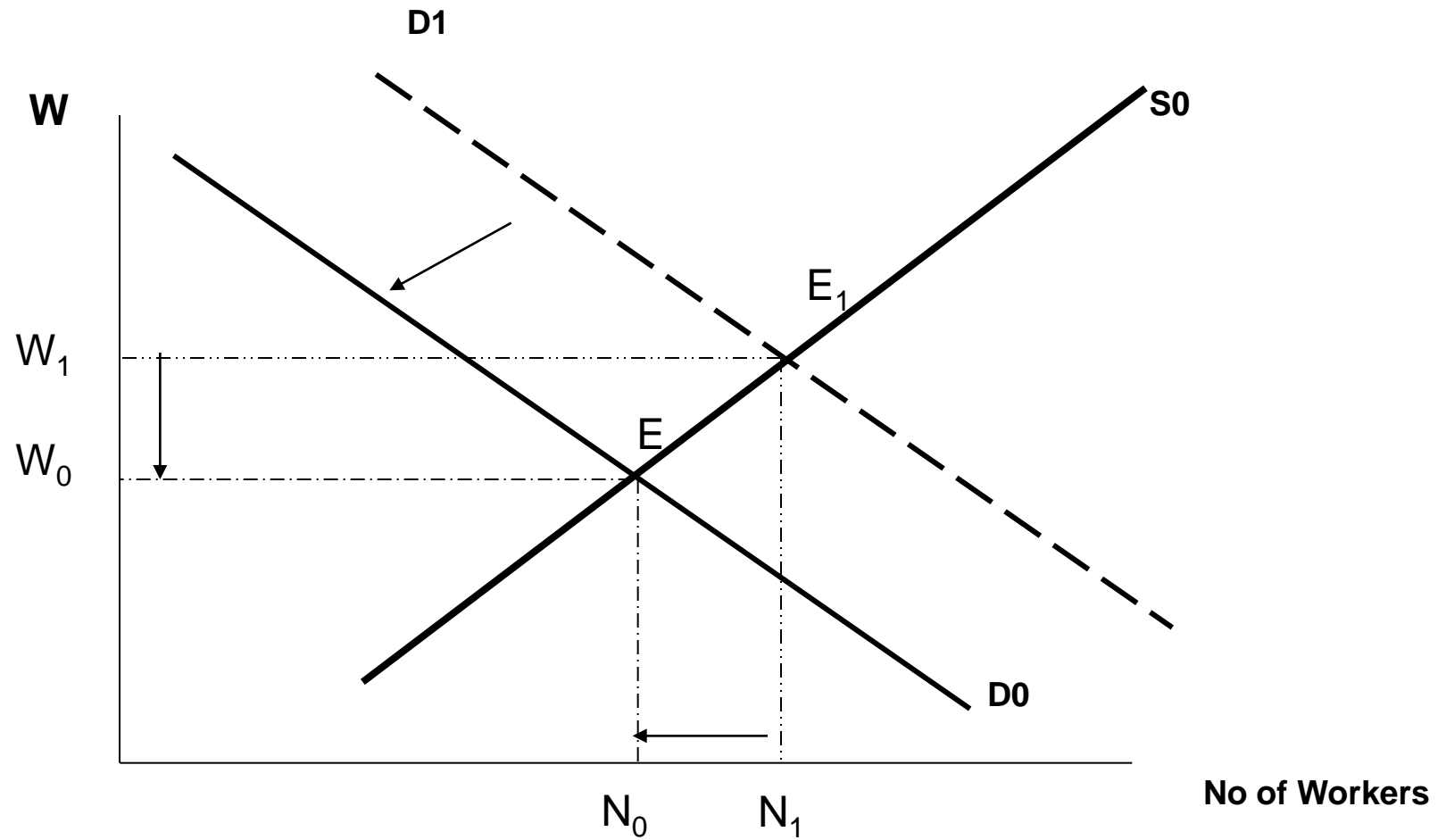
Changes in the equilibrium wage rate

Reason: An increase in the demand for the firm's product



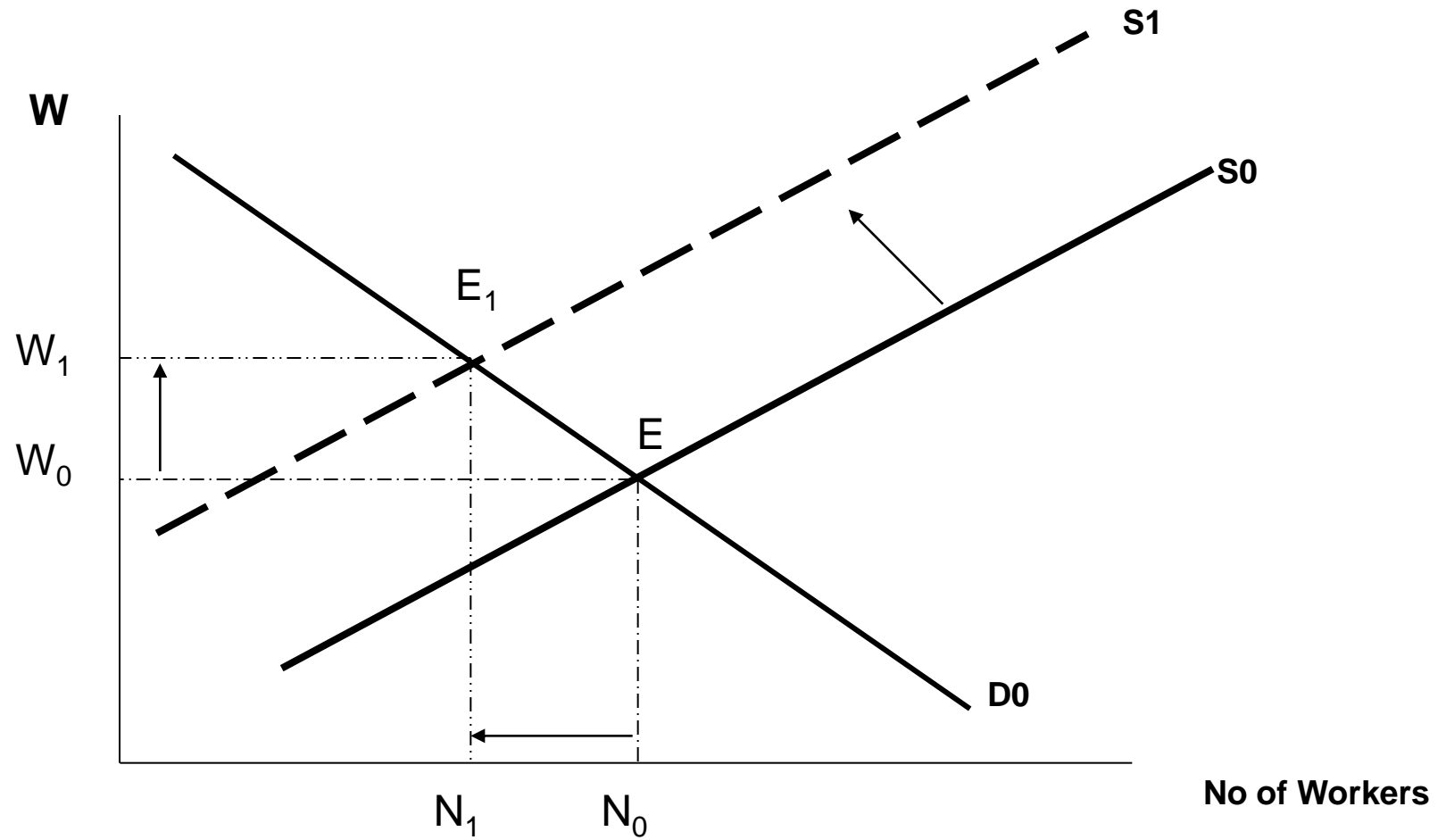
Changes in the equilibrium wage rate

Reason: Decrease in MPP of workers



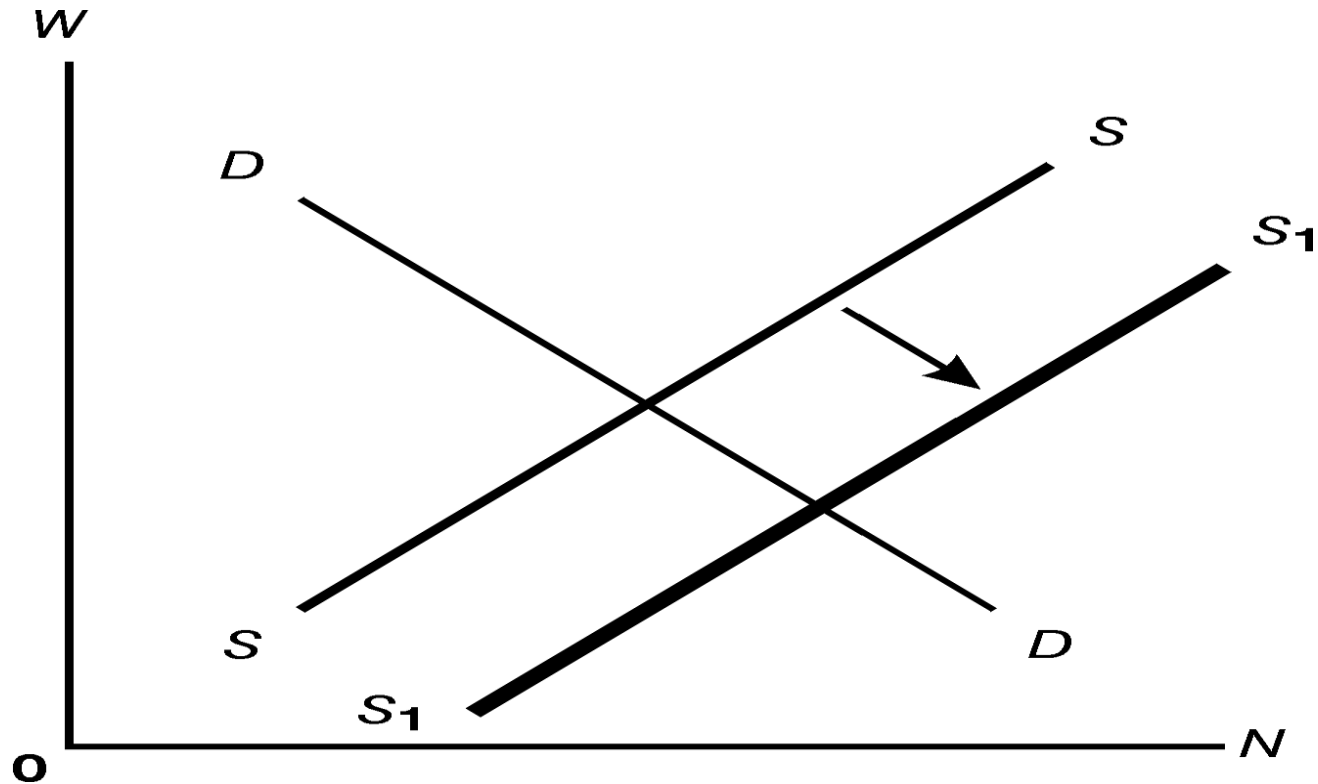
Changes in the equilibrium wage rate

Reason: Impact of HIV/AIDS on labour supply



Changes in the Equilibrium wage rate

Reason: Impact if salaries in other occupations are lower than those in the given industry



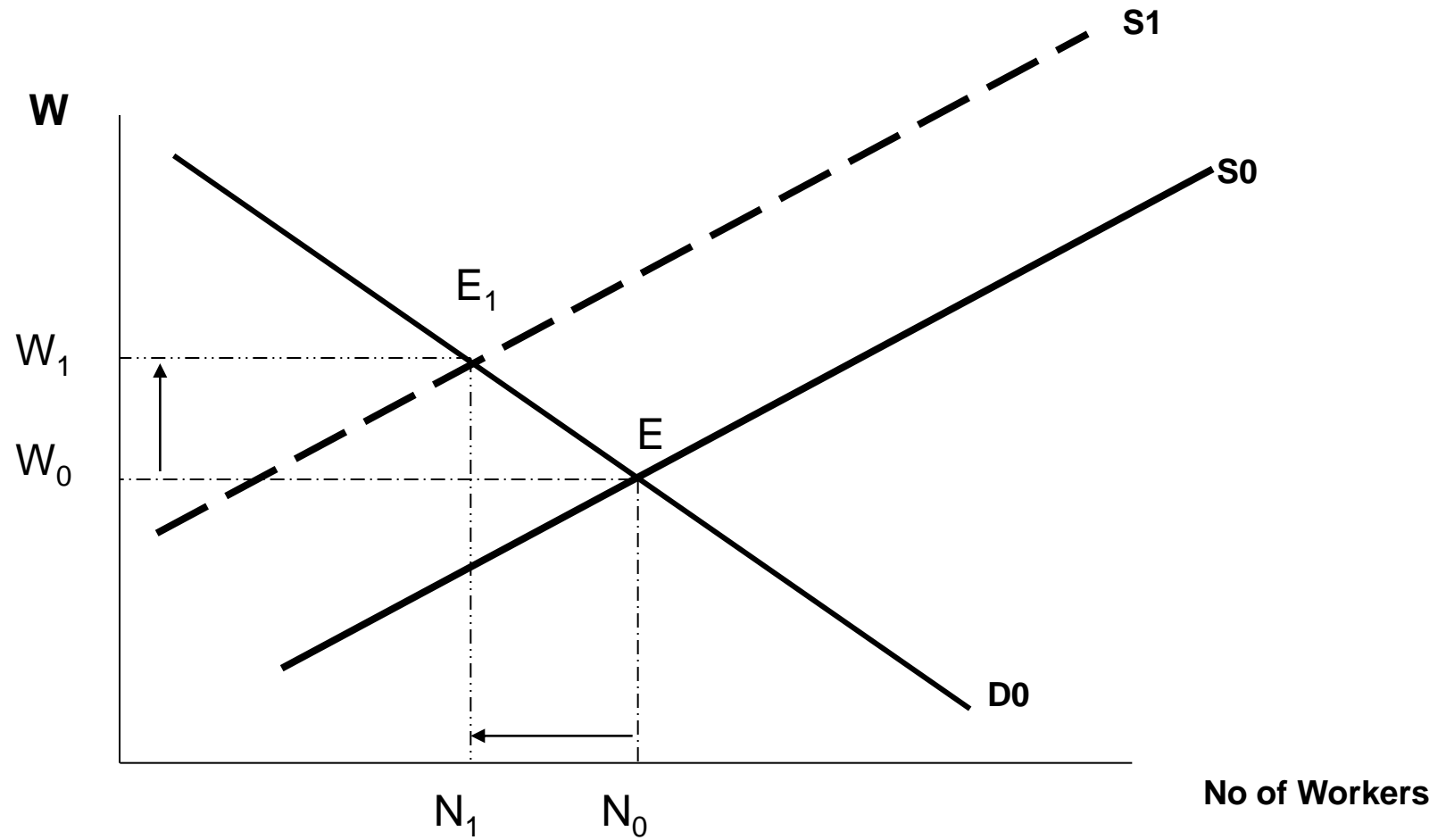
Imperfect labour markets

- **Reasons for the existence of imperfect labour markets are:**
 - **Trade unions organise workers**
 - **If there is only one buyer of workers in the market**
 - **Labour is heterogeneous**
 - **Labour is not mobile**
 - **Labour market is sometimes segmented and workers cannot move between segments freely.**
 - **Government intervention through minimum wages and other legislation**
 - **Employers and employees have imperfect knowledge of the market.**

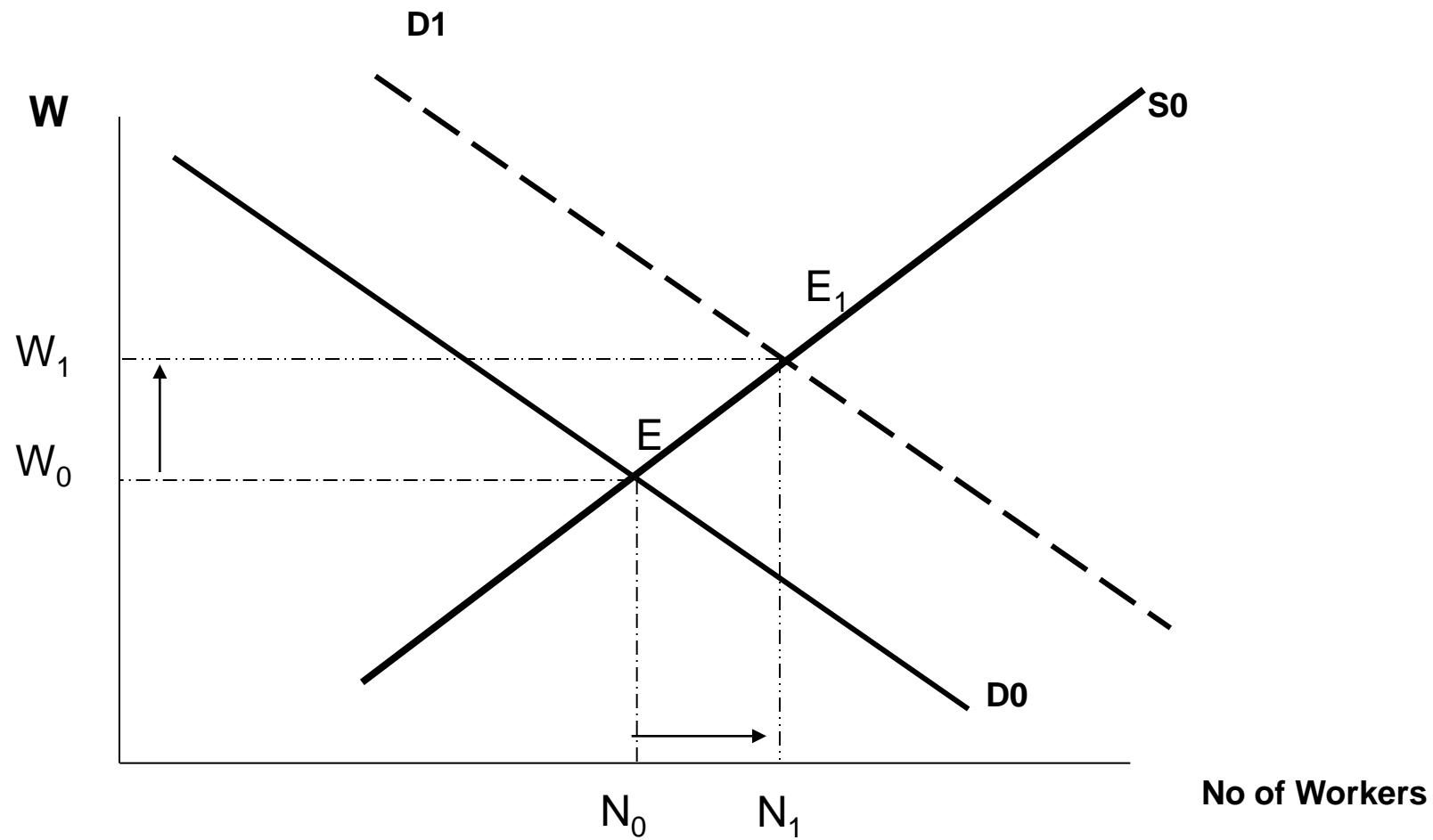
Imperfect labour markets

- **Trade unions can increase wages in three possible ways:**
 - **Restriction of labour supply**
 - **Increase the demand for the firm's product**
 - **Negotiate a wage rate for members which is higher than equilibrium wage rate**

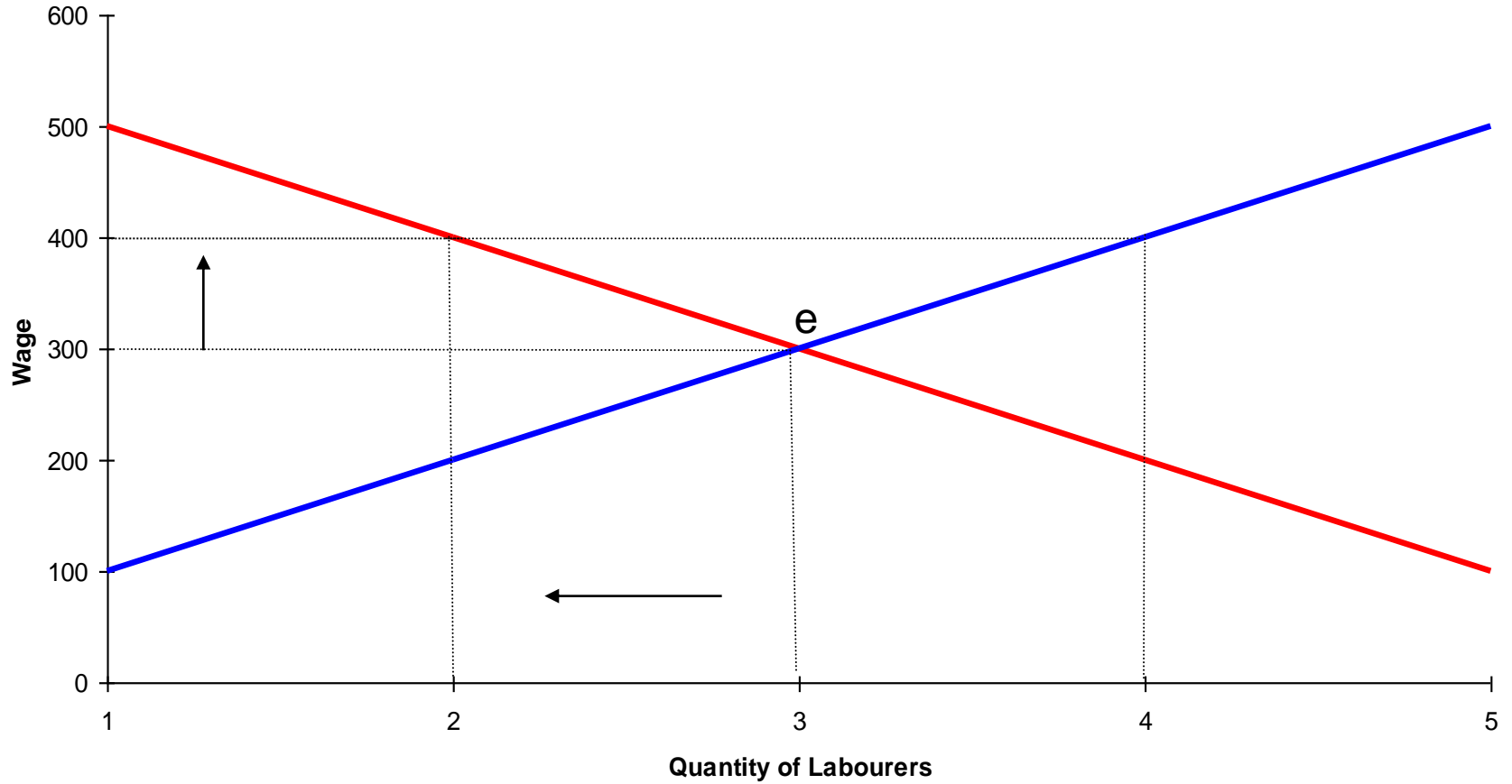
Trade unions: Restriction of labour supply



Trade unions: Increase in the demand for the firm's product



Trade unions: Higher wages negotiated

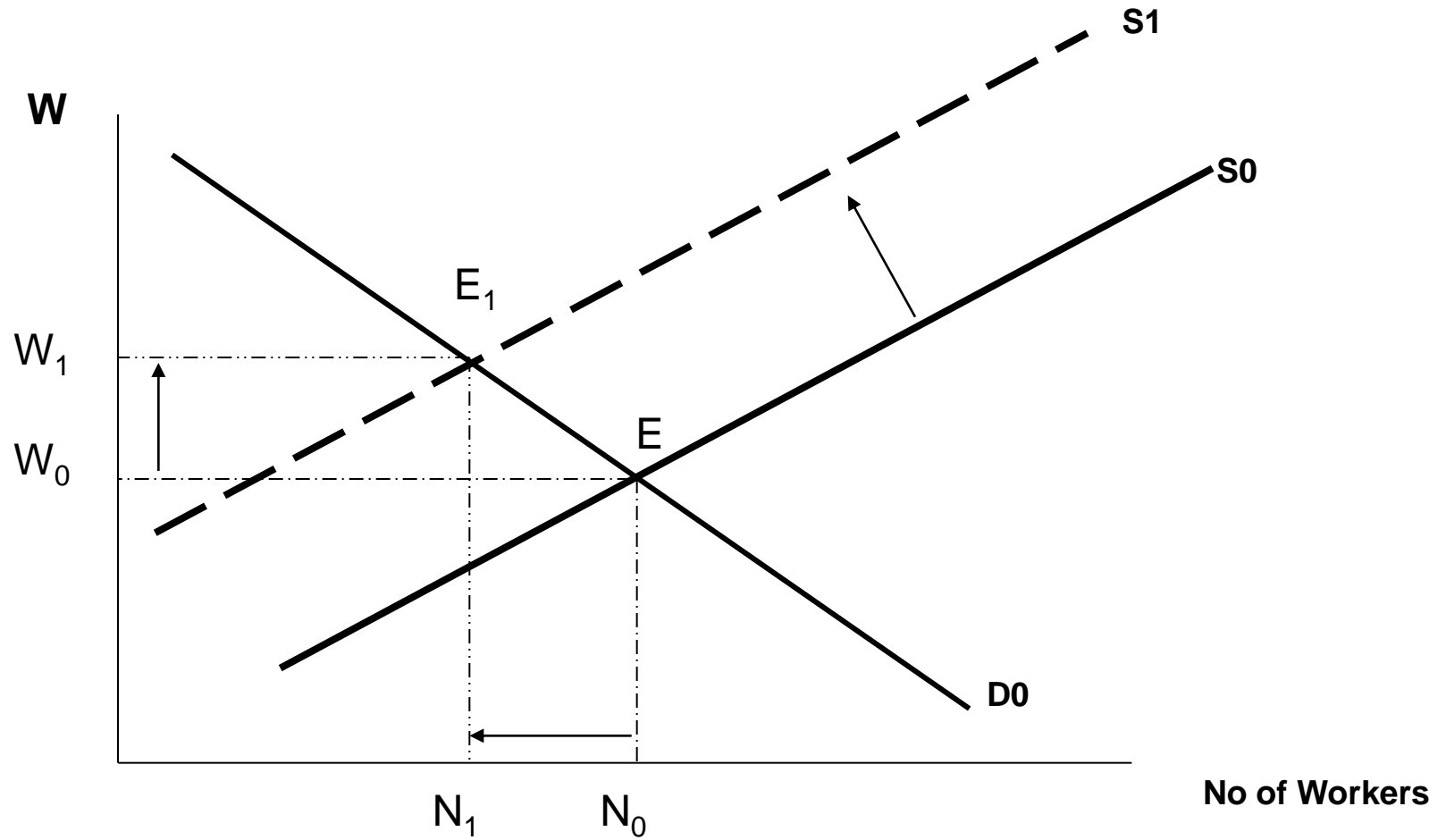


EXAMINATION TYPE QUESTIONS

Illustrate how certain trade unions can control the supply of skilled labour in specific trades (or professions) by restricting membership.



Make use of the set of axes in the diagram below to illustrate how certain trade unions can control the supply of skilled labour in specific trades (or professions) by restricting membership. Label all axes and curves and clearly indicate any possible change in direction



Activity: labour market

1. Explain the effect of the following factors on labour demand/supply & on equilibrium wage:
 - a. Increase in labour productivity
 - b. Increase in availability of substitutes for labour (e.g. factory machines)
 - c. Increase in wages in other occupations
 - d. Improvement in safety measures in a given occupation
 - e. Decrease in the price of a complement to labour (e.g. a sewing machine)
2. **TRUE or FALSE? EXPLAIN**
 - a. A decrease in labour supply is accompanied by an increase in wage rate & vice-versa.
 - b. An increase in demand for labour is accompanied by an increase in wage rate & vice-versa.

Questions

3. State the equilibrium for the firm operating in the perfectly competitive labour market?
4. When is the labour market in equilibrium?
5. What is the benefit of a productivity agreement between trade unions and employers?
6. Use a diagram to illustrate how a trade union can attempt to raise the wage rate by enforcing a higher disequilibrium wage.