Section 6: The Labour market

Monopsony characteristics
- labour is not homogenous, so MRP is different, there is discrimination
- Non-monetary condition such as working conditions, fringe benefits
- labour is imperfectly mobile
- imperfect knowledge
- trade unions have power to bargain
- wage setting power because they are the sole employer for workers of that profession

Graph:
- MCL above ACL because each time a new worker is hired, firm pays a higher wage to attract and has to increase existing workers wages to same level
- Monopsonist could pay W2(workers actual MRP) but workers will work for W1(wage maker)
- but they get paid W3=exploitation
- reduces wages and employment
- larger difference between monopsony wage rate and competitive wage rate=greater monopsony power

Key Terms
- Derived demand for labour- demand that is derived from demand for the product
- MRPL (marginal revenue product of labour)- extra revenue earned from employing an extra worker
- MPPL (marginal physical product of labour)- output produced by an additional worker
- MCL (marginal cost of labour)- cost of hiring one additional worker
- MRLP= MPPL x MR
- Firms will hire at MRPL= wage (MCL)
- In the SR firms will experience diminishing law of returns due to constraint on FOP

Trade unions

Role
- increases collective bargaining power of workers
- bargains for wage rises, working conditions, worker discrimination, pension rights
- Controls supply of labour at a given wage rate

Graph:
- Higher wage of Wt negotiated in a perfectly competitive market
- Leads to excess supply of L2 and reduced demand of L2 leading to unemployment
- when wage rise is bargained unemployment is created (depends on elasticity of labour demand curve)

Evaluation of trade union
- closed shop trade unions are assumed in the diagram where every worker is part of a trade union but this is illegal in real life
- Union density: proportion of workforce in a certain profession that is part of a trade union
- Union markup: difference in wage for workers part of trade union compared to worker that are working not for a similar profession. The bigger the difference the more powerful the union is
- today trade union power and membership is falling because of govt legislation, workers having several employers and globalization
- increasing productivity of trade union members reduces excess supply (unemployment)

Trade unions in monopsony market(evaluation of trade unions)
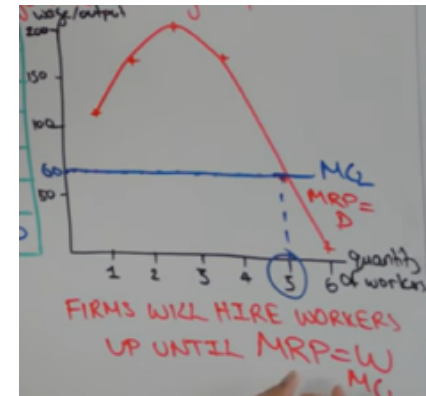- the trade union involved is assumed to be strong

Graph:
- Higher wage of Wt negotiated
- MCL and ACL curve changes shape
- MCL: is a price taker up to Lt, then after Lt each time a new worker is hired, firm pays a higher wage to attract and has to increase existing workers wages to same level(MCL curve continues by the line of discontinuity)
- trade unions in controlled monopsonies improve wage and employment levels, closer to the competitive free market outcomes =greater efficiency

Factors effecting Demand for labour (non-wage shifters)
- change in price of product labour is producing, which affects MR
- change in demand for product(derived demand)
- change in productivity which affects MPPL
- price of capital
- for each factor explain how MRP is affected (using equation)

cost of labour(movealong the curve)

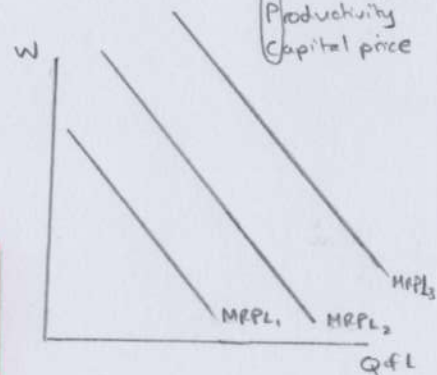### Elasticity=%change in labour demanded/%change in wage rate

Factors affecting EoD of labour
- Substitutability of capital for labour
- EoD for product
- Cost of labour as a % of total cost
- Time period(In SR harder to get capital so labour demand is more wage inelastic)

Supply of labour
- total number of hours a worker is willing to work at a given wage rate
- in SR worker chooses between leisure or work at a wage rate

Factors effecting supply of labour
Monetary: welfare gains from a wage rate, wage on offer in a substitute occupation
Non-Monetary:flexible working hours, occupation mobility, job location, training availability fringe benefits, job satisfaction, pension plan, job security, size of working population, wage competitiveness, net migration, lower barriers to entry, demographics factors, publicizing of jobs

Elasticity=%change in labour supplied/%change in wage rate
- Low skilled jobs are more elastic and tend to have similar wage rates
- High-skilled jobs are more inelastic in SR
- occupational mobility
- Geographical mobility
- vocational profession are more wage inelastic
- time period(more wage inelastic in SR)

Perfect labour market characteristics
- large number of potential worker and employers
- homogenous labour(same skills and perfectly mobile)
- perfect information
- firms are price and wage takers
- no barriers to entry or exit for workers
- workers choose to work based solely on wage

Graph:
- operates at MCL=MRP=W
- wage determined by supply and demand (for a certain occupation)

Section 6: The Labour market

Monopsony characteristics (blue box)
Monopsony characteristics
-labour is not homogenous, so MRP is different, there is discrimination
-Non-monetary condition such as working conditions, fringe benefits
-labour is imperfectly mobile
-imperfect knowledge
-trade unions have power to bargain
-wage setting power because they are the sole employer for workers of that profession

Graph:
-MCL above ACL because each time a new worker is hired, firm pays a higher wage to attract and has to increase existing workers wages to same level
-Monopsonist could pay W2(workers actual MRP) but workers will work for W1(wage maker)
-but they get paid W3=exploitation
-reduces wages and employment
-larger difference between monopsony wage rate and competitive wage rate=greater monopsony power

Monopsony (graph)
Monopsony

lost wages from underemployment

W_1

MCL

ACL

W_2, W, W_1, W_3

Q_1, Q_e Q

Total wages

Role (purple box)
Role
-increases collective bargaining power of workers
-bargains for wage rises, working conditions, worker discrimination, pension rights
-Controls supply of labour at a given wage rate

Graph:
-Higher wage of Wt negotiated in a perfectly competitive market
-Leads to excess supply of L2 and reduced demand of L2 leading to unemployment
-when wage rise is bargained unemployment is created (depends on elasticity of labour demand curve)

Evaluation of trade union (purple box)
Evaluation of trade union
-closed shop trade unions are assumed in the diagram where every worker is part of a trade union but this is illegal in real life
-Union density: proportion of workforce in a certain profession that is part of a trade union
-Union markup: difference in wage for workers part of trade union compared to worker that are working not for a similar profession
The bigger the difference the more powerful the union is
-today trade union power and membership is falling because of govt legislation, workers having several employers and globalization
-increasing productivity of trade union members reduces excess supply (unemployment)

Trade unions in monopsony market (pink box)
Trade unions in monopsony market(evaluation of trade unions)
-the trade union involved is assumed to be strong

Graph:
-Higher wage of Wt negotiated
-MCL and ACL curve changes shape
MCL: is a price taker up to Lt, then after Lt each time a new worker is hired, firm pays a higher wage to attract and has to increase existing workers wages to same level(MCL curve continues by the line of discontinuity)
-trade unions in controlled monopsonies improve wage and employment levels, closer to the competitive free market outcomes =greater efficiency

Trade unions (purple box label)
Trade unions

Trade union (perfect comp) market graph
Trade union (perfect comp) market

W

$S = ACL$

W_t

W_e

$D = MRP$

Q of L

L_1, L_e L_2

Trade union (monopsony market) graph
Trade union (monopsony market)

MCL

MCL_t

u

$S = ACL$

$S_t = ACL_t$

W_e

W_t

W_M

MRP=D

L_M L_t L_e

Key Terms (red box)
Key Terms
-Derived demand for labour- demand that is derived from demand for the product
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-MPPL (marginal physical product of labour)- output produced by an additional worker
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Industry graph
INDUSTRY

→ contraction of labour demand

W

→ extension of labour demand

D=MRP

Q of labour

Factors effecting Demand for labour (orange box)
Factors effecting Demand for labour (non-wage shifters)
-change in price of product labour is producing, which affects MR
-change in demand for product(derived demand)
-change in productivity which affects MPPL
-price of capital
-for each factor explain how MRP is affected (using equation)

cost of labour(movealong the curve)

Elasticity demand (orange box)
Elasticity=%change in labour demanded/%change in wage rate

Factors affecting EoD of labour
-Substitutability of capital for labour
-EoD for product
-Cost of labour as a % of total cost
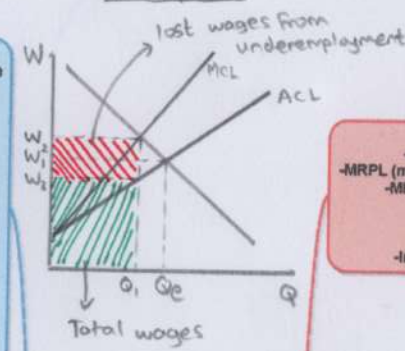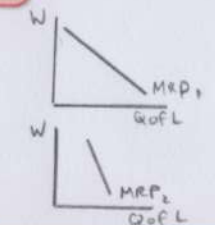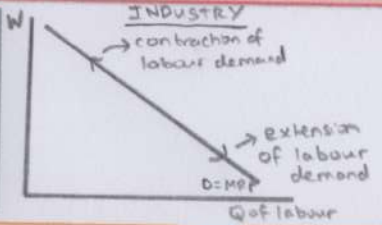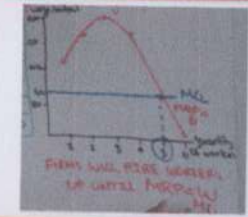-Time period(in SR harder to get capital so labour demand is more wage inelastic)

Supply of labour (yellow box)
Supply of labour
-total number of hours a worker is willing to work at a given wage rate
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Factors effecting supply of labour
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Elasticity supply (yellow box)
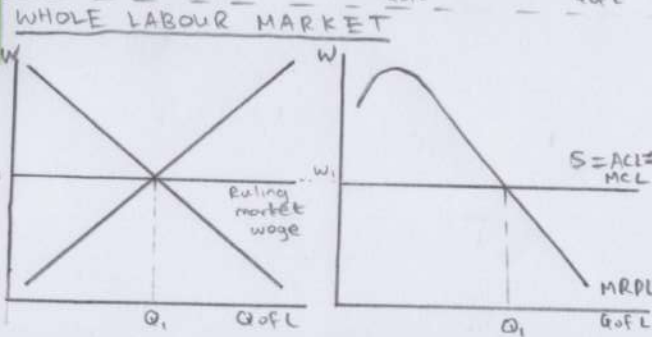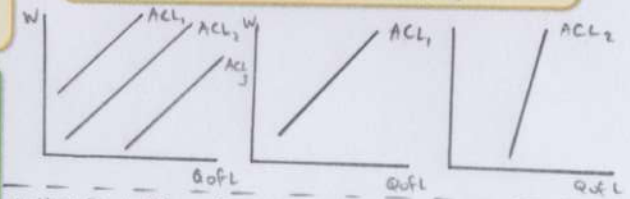Elasticity=%change in labour supplied/%change in wage rate
-Low skilled jobs are more elastic and tend to have similar wage rates
-High-skilled jobs are more inelastic in SR
-occupational mobility
-Geographical mobility
-vocational profession are more wage inelastic
-time period(more wage inelastic in SR)

Perfect labour market characteristics (green box)
Perfect labour market characteristics
-large number of potential worker and employers
-homogenous labour(same skills and perfectly mobile)
-perfect information
-firms are price and wage takers
-no barriers to entry or exit for workers
-workers choose to work based solely on wage

Graph:
-operates at MCL=MRP=W
-wage determined by supply and demand (for a certain occupation)

Top right notes
Price of Product
Demand for product
Productivity
Capital price

MRPL graph (top right)
W

$MPPL_3$

$MRPL_1$ $MRPL_2$

Q of L

MRP graphs (right)
W

MRP_1

Q of L

W

MRP_2

Q of L

ACL graphs (right)
W

ACL_1, ACL_2

ACL_3

Q of L

W

ACL_1

Q of L

W

ACL_2

Q of L

Whole labour market
WHOLE LABOUR MARKET

W

W_1

Ruling market wage

W_1

Q_1 Q of L

W

$S = ACL = MCL$

W_1

MRPL

Q_1 Q of L