Trade Unions - In reality, there are few examples of highly competitive labour markets. A trade union seeks to further the interests of its members through a process of 'collective bargaining' with employers. The effect of introducing a trade union on the labour market is analysed in figure 8.4. It could be argued that a trade union's attempts to raise wages will be at the expense of jobs, and that if unions wish to reduce unemployment they should accept wage cuts. This need not be the case however. By increasing the productivity of their membership through working with new capital equipment and new working methods , and by improving their skills and possibly motivation , a union can ensure that the MRP curve of labour shifts rightward. This creates the possibility for both increased wages and increased employment.

Employers with labour market power ~ firms who employ a high percentage of workers in a particular labour market can influence the wage rate. In a labour market a monopsonist (a single dominant buyer) employer is a firm which is the only buyer of labour. Remember that a monopoly is a single seller . An example is the government , as the main employer of soldiers in the national defence . Monopsonists are price makers, that is , they dictate the wage rate. In order to employ more workers they have to increase the wage rate. The means the marginal cost of labour will exceed the average cost of labour.

Monopsony in a market with trade unions