- **marginal product of labour** (**MPL**) is the addition to ouput from increasing the labour inputby one unit, with all other factors of production held fixed e.g. calculate the additional cupsof coffee produced by adding each extra worker
- value of marginal product of labour is marginal product of labour times the price of the business's output
  - $\circ$  VMPL = MPL x p
  - Where MPL is the marginal (physical) product of labour and p is the price of a cup of coffee
- The money or nominal wage is simply the wage received by a worker measured in units of currency
- The real wage is the money or nominal wage divided by some measure of the price of goods and services. It measures a wage in terms of its ability to buy real goods and services
- to determine whether to hire another worker, business will look at whether the VMPL from employing the worker is at least as large as wage paid – VMPL > W (where W is the hourly wage)
- To derive the labour demand curve, must compare marginal cost vs marginal benefit
  - Repeat the calculation for different values of the money wage and by doing so would be able to dervive demand for labour curve
  - All other things held constant, an increase(decrease) in the money wage will cause a fall (rise) in the number of workers employed
- Condition for our determing the level of employment as equality: VMPL = W or as p X MPL =W
  - Two things can affect the VMPL, the price of the business's product (P) and the MPL
  - An increase in p will cause the VMPL(labour demand curve) to shift to the rest
  - Implies that an increase in the relative price of a product will increase demand for labour
  - Changes in a businesses capital or technology of the the MPL, increases will increase the MPL and would bit Re Will to the right

2.3.2 Labour Demand in an econom

- P x MPL = We Point the second second
  - P is now an index of the general level of prices (CPI or GDP price index), MPL is the aggregate marginal product of labour and W is index of the general level of wages in the economy
  - At the aggregate level it is common to divide both sides of the above equation by P
  - $\circ$  MPL =  $\frac{W}{P}$
  - such that the aggregate level of employment is determined by the equality between the marginal product of labour and the real wage



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