3.5 Labour market

3.5.1 Demand for labour

- Demand for labour is derived demand. It shows how many workers an employer is willing and able to hire at a given wage rate in a given time period.
- **Derived demand** = demand that comes from the demand for something else (e.g. based on the demand for goods and services).
- **Marginal product of labour** = the change in output generated when an additional worker is employed.
- **Marginal revenue product of labour** = the extra revenue generated when an additional worker is employed.
- So workers have to increase revenue more than what they cost to the firm.
- **The formula for MRPL** = marginal product of labour x marginal revenue.

Factors that influence demand for labour

- When the economy is growing, demand for labour increases and level of employment in the economy increases *(opposite if the economy is in a recession, leading to less demand for goods and services so less demand for labour so more unemployment).*
- There is an inverse relationship between demand for labour and wage rate.
- Business confidence and future expectations - a firm is more likely to take on extra workers if they expect demand for their goods to rise soon.

Shifts in the Labour Demand curve

- Causes of shifts include:

1. A rise in consumer demand which means that a business needs to take on more workers
2. A change in the price of the good or service that labour is making
3. An increase in the productivity of labour which then makes labour more cost efficient than capital
4. An employment subsidy which cuts costs and allows a business to employ more workers
5. A change in the cost of capital equipment (a substitute for labour) e.g. consider the effects of robotic technologies