3.5 Labour market

3.5.1 Demand for labour

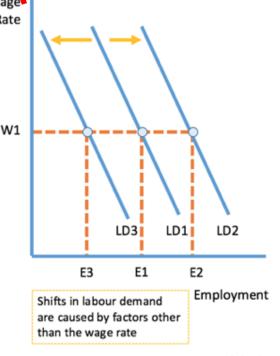
- Demand for labour is derived demand. It shows how many workers an employer is willing and able to hire at a given wage rate in a given time period.
- **Derived demand** = demand that comes from the demand for something else (e.g. based on the demand for goods and services).
- **Marginal product of 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 waderste.
- Business confidence and future expectations a firm is more likely to take on extra workers if they expect demand for their growth use soon.

Shifts in the Labour Demand curve

- Causes of shift and ude:
- A rise in consumer deniand which means that a business needs to take on more workers
- A change in the price of the good or service that labour is making
- An increase in the productivity of labour which then makes labour more cost efficient than capital
- 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



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