Elasticity of Labour Demand

Elasticity of labour demand measures the responsiveness of demand when there is a change in the wage rate.

Factors affecting the wage elasticity of demand for labour

Labour costs as a % of total costs: When labour expenses are a high % of total costs, then labour demand is more wage elastic.

Ease and cost of factor substitution: Labour demand is more elastic when a firm can substitute easily and cheaply between labour & capital inputs.

Price elasticity of demand for the final product: This determines whether a firm can pass on higher labour costs to consumers in higher prices. If demand is inelastic, higher costs can be passed on.

Time period – in the long run it is easier for firms to switch factor inputs e.g. bring more capital in perhaps replacing labour