Unit labour cost – *the labour cost per unit output*

These can show how competitive an economy is.

What are the main labour costs employers incur?

- Wages 80%
- Pension contributions
- Training
- National insurance
- Holiday pay
- Redundancy payments

2 major things influence ULC

- *Productivity*
- *Wages*

How would productivity affect ULC?	How would productivity affect ULC?
High productivity would lead to a decrease in ULC, because output per worker would increase and the costs are the same. Likewise a fall in productivity would make ULC higher because workers have to work longer to produce the same output.	High productivity would lead to a decrease in ULC, because output per worker would increase and the costs are the same. Likewise a fall in productivity would make ULC higher because workers have to work longer to produce the same output.

Limitations

- **Data ignores variations in quality and other non-price factors**
- **Could rank poorly on ULC but make up for it with cheap resources e.g. low cost land and capital**
- **Exchange rate also determines the price competitiveness of products**

Marginal Revenue Product MRP

Firms demand labour in order to make revenue from selling the goods that the labour produces. MRP is the extra revenue gained by the firm from employing one more worker. Firms will hire a worker if they add more to revenue than they add to costs. Firms hence employ workers up until MC=MRP.
An example: A worker produces 10 units per hour that are sold for £12 each. The MRP = £120. So long as the worker costs less than this to employ then it is profitable. In a perfect labour market the wage of every worker is equal to the MRP.

Labour productivity is important because wages make up a large amount of total expenditure, TNC often look at ULC figures as it gives indication of how competitive an economy is, ULC can deter and persuade firms to invest in a country hence FDI can be affected.

Labour supply

Long run supply for labour- *Total number of workers willing and able to work in a given occupation for a given wage.*

Individual supply for labour- *Total number of hours that labour is willing and able to supply at a given wage.*

Factors affecting labour supply

- Size of working population
- Net Migration
- Willingness of population to work
- Elasticity of labour supply

Ways to increase supply for labour

- Tighter eligibility for welfare payments
- National minimum wage
- Fall in value of benefits
- Investment in education and training
- Better access to child care.

Demand for labour

The demand for labour is a derived demand – it is linked to the demand of the final product. When firms demand workers it is because they need them to make the goods that are being demanded by their customers. When demand for these goods rises, so does the demand for labour. Wages are directly linked to the Marginal Revenue Product (Extra revenue the employee brings to the firm) MRP can be difficult to measure for example a public service like a Teacher. Firms employ where MRP = MC because this is where they will make the most profit.

Causes of a shift in labour demand:

- Labour productivity, higher productivity would increase final demand for labour.
- Higher demand for final product
- Price of a substitute.

Factors affecting elasticity of demand for labour:

- The price elasticity of demand of final product
- The proportion of wages to total costs
- The elasticity of supply of complimentary factors
- The ease of which labour can be substituted for other factors (e.g. machinery replacing labour)