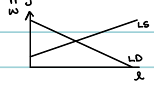
Chapter 11: The Labor Market

- the labor market := an input market where workers supply ℓ^* to firms who demand ℓ^* for a wage of w^* determined by downward sloping demand and upward sloping supply



there is an associated output market for the service produced by the labor & the input market is derived from it

- labor demand: employers exist in a competitive labor market & therefore cannot change w^* on their own ... can only see w^* & determine $LD(w)$
  - marginal product of labor := MP_L := extra production from hiring 1 more worker
  - marginal revenue product of labor := MRP_L := marginal revenue from hiring 1 more worker := $MP_L \cdot P$

Rational Rule := hire as long as $MRP_L \geq w$ => hire where profits are maximized

demand curve = MRP_L curve = downward sloping & moved along as wage changes

↳ shifted by shifts in output market

shifted by changes in price of capital < scale effect: price of capital ↓ => buy more capital => need more workers TO PRODUCE MORE; substitution effect: price of capital ↓ => buy more capital => workers replaced

better management & productivity gains => demand shifts out

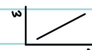
nonwage benefits & taxes shift demand back

- individual labor supply: workers choose between labor & leisure through the income & substitution effects of wages
  - income effect := higher income makes leisure more attractive
  - substitution effect := higher wages make work more attractive

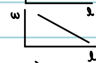
  } COMPETING EFFECTS

Rational Rule: work as long as wage $\geq MB_{Leisure}$

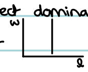
supply curve: upward sloping if substitution effect dominates



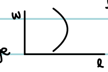
downward sloping if income effect dominates



vertical if effects cancel eachother



bending if dominating effect depends on wage



- at low wages, substitution effect dominates; at high wages income effects dominate

↳ shifted by other uses of time, other sources of income, changes in need for labor / income, experience

- market labor supply: upward sloping
  ↳ 1 job type = 1 market
  - more people enter workforce, existing workers put in more hours, ppl switch jobs

↳ shifted by other occupation wages changing, population changes, unemployment benefits changing, taxes & employment benefits change

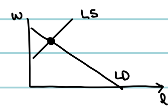
Chapter 12: Wages, Workers & Management

- human capital is a signal for a worker's potential productivity
  ↳ accumulated knowledge & skills

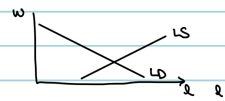
signal: an action taken by informed side communicate info from informed side to uninformed side

vs

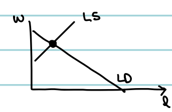
screening := an action taken by uninformed side find out info from informed side to uninformed side



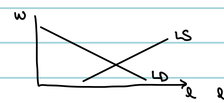
lower supply of jobs that require more human capital => higher wage



higher supply of jobs that require less human capital => lower wage



lower supply of jobs that require are less attractive => higher wage



higher supply of jobs that are more attractive => lower wage

- efficiency wage: firms pay workers more to incentivize harder work
- compensating differential: differences in wages required to offset undesireable attributes of a job

- other factors that explain wage variance include minimum wage floors, gov regulations, occupational licensing, unions & monopsony power