The Supply and Demand for Labour

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- The labour market is an example of a factor market
- Supply of labour those people seeking employment (employees)
- Demand for labour from employers
 - A 'Derived Demand' not wanted for its own sake but for what it can contribute to production
 - Demand for labour related to productivity of labour and the level of demand for the product
 - Elasticity of demand for labour related to the elasticity of demand for the product

- At higher wage rates the demand for labour will be less than at lower wage rates
 Reason linked to Marginal
 - Productivity Theory



The demand for labour is highly dependent on the productivity of the worker – the more the worker adds to revenue, the higher the demand. Copyright: iStock.com

Roductivity refers to the amount producted per worker per period of time

- MRP = the addition to total revenue (TR) received from the sale of an additional unit of output
 - Worker instrumental in producing that output
- Marginal Physical Product (MPP) the addition to total product as a result of the employment of one additional unit of labour

$\square MRP = MPP \times P$

If a good sells for £1.00 and a worker produces 300 per day, the MRP of that unit of labour is £300 per day





Wage Rate (£ per hour)

There is an inverse relationship between the wage rate and the number of people employed by the firm.



The Supply of Labour

- The amount of people offering their labour at different wage rates.
 - Involves an opportunity cost work v. leisure
 - Wage rate must be sufficient to overcome the opportunity cost of leisure

Income effect of a rise in wages:

As wages rise, people feel better off and therefore may not feel a need to work as many hours

Substitution effect of a rise in wages:

- As wages rise, the opportunity cost of leisure rises (the cost of every extra hour taken in leisure rises). As wages rise, the substitution effect may lead to more hours being worked.
- The net effect depends on the relative strength of the income and substitution effects

The last of supply of about depends upon:

Geographical mobility of labour:

- The willingness of people to move
- The cost and availability of housing in different areas
- The extent of social, cultural and family ties
- The amount of information available to workers about jobs in other areas
- The cost of re-location
- Anxiety of the idea of re-location

Occupational Mobility of Labour:

- Lack of information of available jobs in other occupations
- Extent and quality of remuneration packages
- Extent of skills and qualifications to do the job
- Anxiety at changing jobs



An inelastic supply of labour – a substantial rise in the wage rate only brings forth a small increase in the amount of people willing and able to do such work.

The reason may be the number with those particular skills and qualifications, the time it takes to get those skills, geographical immobility etc.

Number of Hours Worked

Wage Rate (£ per hour)

If the supply of labour is elastic, a small rise in the wage rate is sufficient to encourage more people to offer their labour. Geographical and occupational mobility are likely to be high and there is likely to be many substitutes.







Economic Rent The value of the wage earned over and above that necessary to keep a factor in its current employment



The supply of labour curve shows the relationship between the wage rate and the number of people offering their labour in terms of the number of hours worked.

At a wage rate of £6.00 per hour, employees are willing to offer Q1 hours. Some in the market are not willing to work for any less than that and some would be willing to work for less than £5.00.

The area under the supply curve is referred to as the **'Transfer Earnings'** of the factor.

Number of hours worked

Economic Rent



