

Wage Determination



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Labor, Wages, and Earnings

Wages

- Price paid for labor
 Direct pay plus fringe benefits
- Wage rate
- Nominal wage
- Real wage
- General level of wages

Role of Productivity

- Labor demand depends on productivity
- U.S. labor is highly productive
 - Plentiful capital
 - Access to abundant natural resources
 - Advanced technology
 - Labor quality

Real Wages and Productivity

Long-run trend of average real wages in the U.S.



Quantity of Labor

Real Wages and Productivity



Competitive Labor Market

- Market demand for labor
 - Sum of firm demand
 - •Example: carpenters
- Market supply for labor
 - Upward sloping
 - Competition among industries
- Labor market equilibrium

•MRP = MRC rule

Competitive Labor Market



Monopsony Model

- Employer has buying power
- Characteristics
 - Single buyer
 - Labor immobile
 - •Firm "wage maker"
- Firm labor supply is upward sloping
- MRC higher than wage rate

Monopsony Model

Examples of monopsony power



Monopsony Power

- Maximize profit by hiring smaller number of workers
- Examples of monopsony power
 - Nurses
 - Professional Athletes
 - Teachers
- Three union models

Demand Enhancement Model

Union model

Increase product demand



Craft Union Model



Quantity of Labor

Industrial Union Model

Inclusive unionism

Auto and steel workers



Bilateral Monopoly Model

- Monopsony and inclusive unionism
- Single buyer and seller
- Not uncommon
- Indeterminate outcome
- Desirability

Bilateral Monopoly Model



The Minimum Wage Controversy

- Case against minimum wage
- Case for minimum wage
- State and locally set rates
- Evidence and conclusions

Wage Differentials

- Differences across occupations
- What explains wage differentials?
- Marginal revenue productivity
- Noncompeting groups
 - Ability
 - Education and training
- Compensating differences

Wage Differentials



Wage Differentials

- Workers prevented from moving to higher paying jobs
- Market imperfections
 - Lack of job information
 - Geographic immobility
 - Unions and government restraints
 - Discrimination

Pay for Performance

- The principal-agent problem
- Incentive pay plan
 - Piece rates
 - Commissions or royalties
 - Bonuses, stock options, and profit sharing
 - Efficiency wages
- Negative side-effects