

Chapter 6: The labour market

Application of economics in the real world

Application of economics in the real world 6.1: Labour shortages in the fruit-picking market

- 1 Fruit, such as strawberries and apples, grow in the summer months when the weather is warm and the sun is stronger. Farmers only employ fruit pickers when their crops are ready to be picked. They will have a high demand for the labour of fruit pickers for a short period, but once the season is over, the farmers will no longer employ the pickers.
- 2 The statement means that the number of workers willing to sell their labour to growers has decreased. The conditions of supply have changed, and there are fewer workers for farms buying labour to employ. In a labour market diagram, the supply of labour curve shifts to the left, and growers will have to pay higher wages but will employ fewer workers.
- 3 An increase in the national minimum wage should act as an incentive to workers and increase their willingness to sell their labour in the UK. However, three changes in the conditions of supply have reduced the number of workers willing to work as fruit pickers in the UK, which has made the labour shortage worse.

First, many of the fruit pickers who have travelled from countries in central Europe, such as Bulgaria and Romania, are less willing to travel to the UK. In previous years, unemployment in these labour markets was high, which made travelling to the UK to work as a fruit picker attractive. However, as economic activity in the central European economies has increased, more job opportunities have appeared. Wages have increased and unemployment in Bulgaria and Romania has fallen. Despite the higher national minimum wages, migrant workers have been less willing to travel to the UK to work as fruit pickers.

Second, since 2016 the value of sterling has fallen against other currencies, such as the euro. This means that the wages of seasonal migrant workers have effectively fallen. In July 2015, the pound/euro exchange rate was £1 = €1.40; by July 2019 it had fallen to £1 = €1.15, a depreciation of almost 18%. The lower real wages for migrant workers act as a disincentive for them to travel to the UK and enter the labour market to work as fruit pickers. Lower wages mean that they have less money to take back home at the end of the season. Moreover, the higher value of the euro makes Eurozone labour markets, such as Germany and Italy, more attractive to central European migrants from Bulgaria and Romania as a source of seasonal employment.

Third, the UK has become a more hostile place for migrant workers to live and work in. The political climate has become less welcoming to migrant workers and this has meant that many would rather take up seasonal jobs in Germany or Italy than travel to the UK. Fewer migrants have moved to the UK in recent summers despite the increase in the national minimum wage.

- 4 The 2016 Brexit vote has had two main effects on agricultural labour markets. First, the vote of the referendum sent out a signal to low-skilled migrant workers that they are not welcome in the UK. A major part of the 'Vote Leave' campaign was to 'take back control' of borders and put an end to uncontrolled migration from European Union countries. The Conservative governments since 2016 have been keen to introduce tougher, points-based immigration systems. Such systems are intended to prevent low-skilled workers from successfully applying for visas and allow government officials to allocate work permits to applicants in shortage labour markets. British farmers may argue that visas should be given to migrant workers coming to the UK to pick fruit for a season, but this will add a layer of bureaucracy and cost. Applying for work permits is time consuming, and workers at the lower

end of the labour market are more likely to look for work in other agricultural labour markets, such as Italy or Germany.

Second, wages in agricultural markets are likely to rise, which will negatively affect the businesses of British farmers but may incentivise British workers to work in the sector. Faced with a labour shortage, farmers will have either to leave their crops to rot in fields or to offer higher wages. The extent to which British workers will enter agricultural labour markets is debatable. Many British workers see fruit picking as beneath them, so farmers may have to offer significantly higher wages to attract domestic workers into their fields. The higher wages will add to costs, could eliminate farmers' profits and may even make them price uncompetitive in produce markets.

Application of economics in the real world 6.2: Who should be paid more, MPs or newsreaders?

- 1 On the grounds of fairness it can be argued that both MPs and TV newsreaders are paid too much as their work is less socially valuable than that of nurses and firemen. However, on the ground of market economics, and particularly supply and demand theory, MPs and TV newsreaders are not necessarily paid too much. It is sometimes said that millions of people would like to be MPs, and that of these, some are prepared to do the work for free. However, it is unlikely that such people are suitable to be MPs. To attract people of sufficient calibre to be an MP, they must be offered a reasonable salary, which is not much different from what they are actually paid.

In July 2015, Ipsa, the independent body which decides on MPs' pay, decided to link future increases in MPs' pay to public sector pay, rather than average UK earnings. Ipsa said: 'We believe that, for the next five years, it is right that changes in MPs' pay should reflect those in the public sector, not least because GPs, hospital consultants and senior people in local government are also paid from funds from the taxpayer and get much more.'

Rather more than is the case with MPs, market forces determine the pay of TV newsreaders. There is considerable demand for their services, but only a few people have the talent to be a successful newsreader. However, it has been said that broadcasting companies recruit and train too few newsreaders, so as to maintain the mystique and salaries of those they already employ.

- 2 Speculators who buy and sell financial assets, such as shares, in short-term time horizons are paid too much because they do not perform a beneficial function in the economy. Long-term investors provide finance to businesses when they buy shares. These groups purchase shares because they believe that the company that they are investing in will make profits in the future. In contrast, speculators only buy shares with the intention of selling them quickly at a higher price. They do not add value to the shares or provide finance to businesses; they only flip the asset.

Bookmakers are paid too much because they provide a service that is a demerit good. In the UK gambling is legal but many individuals are prone to over-consuming the product, which results in negative consumption externalities being dumped on society. Bookmakers profit from the harm inflicted on individuals and society.

- 3 Nurses in the UK are underpaid because they sell their labour to a monopsony employer. The NHS is the main employer of healthcare professionals in the UK and it exercises market power in the labour market for nursing. As a result, the NHS can set low wages and underpay nurses for their skilled labour.

Carers in the UK are often unpaid. Many carers have stopped working to look after sick or disabled relatives. They become reliant on welfare benefit payments, which are insufficient to live on. Many carers and their relatives will fall into relative poverty because their household income is less than 60% of the medium income in the UK. Without carers, the dependent

relative will become dependent upon care homes provided by the NHS, or will be in danger of dying through neglect. The work of carers should be properly recognised by the government and the welfare payments significantly increased to provide a respectable income.

- 4 Markets work best when they are competitive. If a labour market is highly competitive, with a large number of firms competing to hire a large number of skilled workers, it should be efficient and set wages at a desirable level. However, at the lower end of the labour market, government intervention is necessary. Barriers to labour market entry are low and there is a large supply of unskilled and low-skilled workers competing for jobs. This means that wages are low and many workers are likely to fall into relative poverty, even if they are working full time. Relative poverty is undesirable because it means that a section of society is living a lifestyle that prevents them from engaging in activities or purchasing goods and services that are considered to be part of the normal way of life. Therefore, the government uses minimum wage laws to protect workers at the lower end of the labour market. By doing this it seeks to prevent the exploitation of vulnerable workers and ensure that all workers are paid an acceptable wage for their labour.

Application of economics in the real world 6.3: Recession, recovery and the UK jobs market

- 1 A capital good is a good or service that is used in the production of another good. For example, an electric drill is a capital good that workers use in the production of mechanical goods, such as cars. JCB is a manufacturing company that specialises in building capital goods, such as bulldozers and diggers. A slowdown in the economy will often be felt quickly in the construction industry because firms will cancel orders and start running down their stocks if they fear a recession. This makes companies that sell capital goods vulnerable to changes in demand because their customers will buy fewer of their products if they believe the economy is slowing down.
- 2 In 2008, the UK economy fell into a deep recession. Demand for goods and services in many markets decreased significantly and the construction industry was affected. Demand for new buildings fell and in turn demand for capital goods, such as bulldozers and diggers, decreased, which hit the order books of companies like JCB. Figure AERW6.1 illustrates how demand decreased, with the demand curve shifting inward from D_1 to D_2 . As demand decreased, the quantity of goods sold by JCB fell from Q_1 to Q_2 . As the market equilibrium had changed, JCB cut production to avoid the problem of excess supply and unsold products. This means that it needed fewer workers and therefore laid off workers.

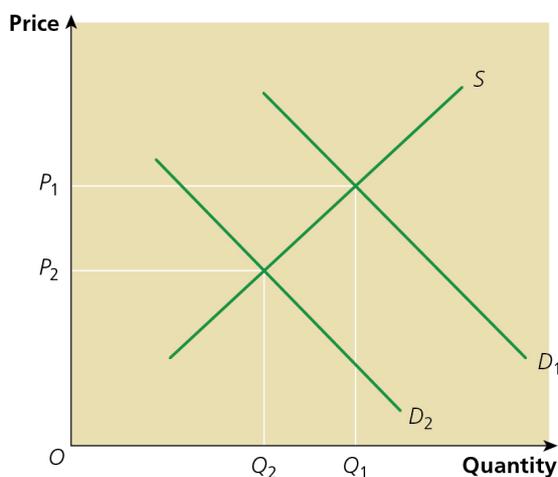


Figure AERW6.1 Market for JCB capital goods

- 3 British economists define a recession as being when the economy experiences two consecutive quarters of negative GDP growth. The construction industry is one of the first sectors of the economy to feel the effects of a recession because firms and households will cut spending on expensive building projects if they are uncertain about the future direction of the economy. New building and construction work is extremely costly and firms will cancel expenditure on projects if they are uncertain. If builders are losing work, they will stop buying new capital equipment because they will not want to spend thousands of pounds on machinery that they do not need. In turn, suppliers to the building industry, such as JCB, will quickly lay off workers in a recession because they will not want to incur significant production costs in making products that they cannot sell.
- 4 The information in the extract illustrates the globalisation process in two ways. First, the case study states that the company JCB is creating jobs by ‘investing in factories in Brazil and India’. This is part of the process of globalisation, where companies based in the developed world are building factories in emerging economies. The companies benefit by being able to set up modern factories in countries with low labour costs. This enables them to reduce their costs of production and access new markets to sell their products. The emerging economies, such as India and China, benefit from the jobs created for their citizens, the transfer of technology as companies bring advanced machinery to their countries to build factories, and the ability to buy capital goods such as bulldozers from the firms.

Second, the case study quotes a JCB spokesperson as saying ‘a significant number of the machines are still made here in the UK and shipped around the world’. This shows that companies such as JCB export a number of their products to buyers in foreign countries. Part of the process of globalisation has been increased volumes of international trade. If British firms are shipping a significant number of products around the world, this illustrates the globalisation process.

Application of economics in the real world 6.4: Trade union action in the UK rail industry in 2022

- 1 A trade union is an organisation of workers which aims to improve the pay and working conditions of its membership.
- 2 The cost-of-living crisis in 2022 meant that pay did not keep up with the prices of goods and services so, on average, people were worse off in real terms. This gave extra impetus to the pay claims of trade union members.
- 3 Other unions involved in industrial action recently have been the NEU teaching union, the Fire Brigades Union and the Royal College of Nursing. At the time of writing (in early 2023) all three have been in negotiations for higher pay but have yet to reach agreements with their employers.
- 4 In general, both the raw number of people belonging to a union and the percentage of the workforce belonging to a union have fallen over the last 30 years.

Application of economics in the real world 6.5: Should we have a national minimum wage?

- 1 In a competitive labour market, workers are wage takers because they have to accept the ruling market wage set by the forces of demand and supply. In Figure AERW6.2, the market sets the wage rate at W_1 , and the number of workers employed is L_1 .

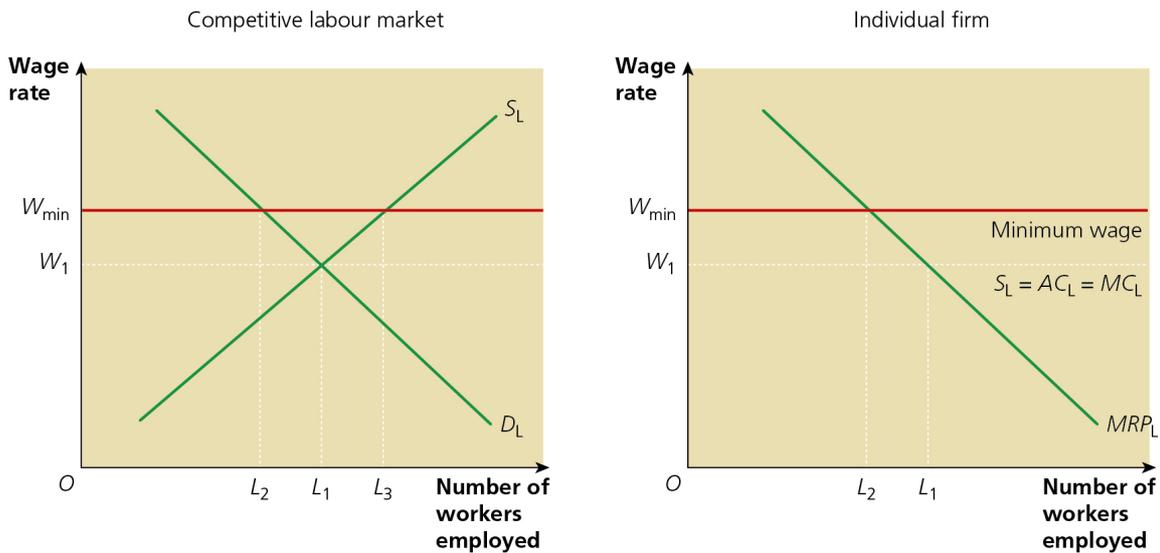


Figure AERW6.2 Effect of a minimum wage in a competitive labour market

A minimum wage is a price law, which tells firms how much they must pay to workers. If the minimum wage is set below the market equilibrium price, it will have no effect on the market. However, if the minimum wage is set above the market equilibrium, it will raise the wages of workers, but the market will fall into disequilibrium. As can be seen in Figure AERW6.2, the minimum wage will increase wages but the demand for labour from firms will fall from L_1 to L_2 because the higher labour costs will create a disincentive for firms to employ workers. Involuntary unemployment will occur between L_2 and L_3 because more workers will be willing to sell their labour (L_3) at the higher minimum wage, but the demand for labour will fall to L_2 .

In a monopsonistic labour market, however, one firm, or a few large firms, are the main buyers of labour. This is an uncompetitive market, where a large firm can exercise market power by setting wages at a low level and exploiting workers. In Figure AERW6.3, the monopsony firm will profit maximise and set wages at W_4 , employing L_4 workers. In this market, a minimum wage can move the market closer to allocative efficiency, which is where the average cost of labour (AC_L) is equal to the marginal revenue product of labour (MRP_L). The minimum wage raises workers' wages and the level of employment from L_4 to L_5 .

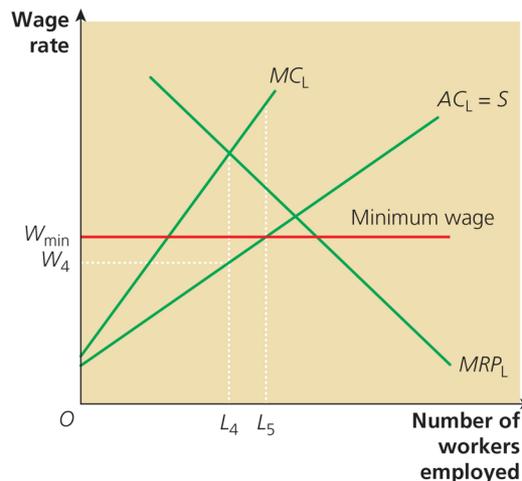


Figure AERW6.3 Effect of a minimum wage in a monopsonistic labour market

The introduction of a minimum wage into a competitive labour market is likely to create unemployment, whereas in an uncompetitive labour market it is likely to increase employment. In both labour markets, the minimum wage will lead to higher wages.

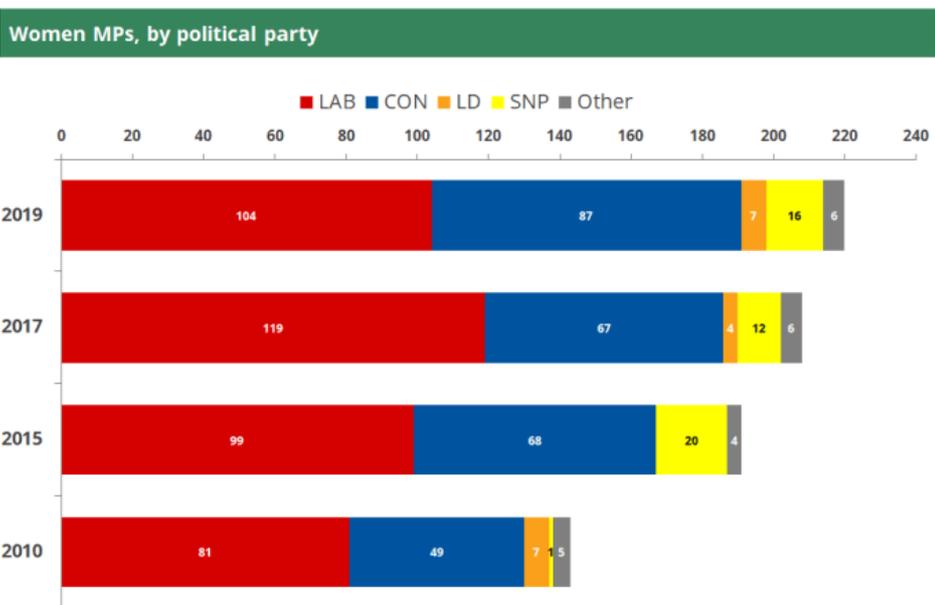
- 2 Figure 6.12 in the textbook shows the effect of a trade union pushing wages and employment levels up in an uncompetitive labour market. Card and Krueger found that when the minimum

wage was increased in New Jersey in 1992, the wage rate and employment level in fast-food restaurants increased. This suggests that the labour market was uncompetitive and prone to monopsony abuse. Therefore, the conclusions of the report are compatible with Figure 6.12.

- 3 The national minimum wage (NMW) is a price law that protects the wages of workers. The NMW has four bands: apprentice, under 18 years of age, under 21 years of age and workers aged 21 years or above. The national living wage (NLW) is a price law that protects the wages of workers aged 25 years and above.
- 4 The answer depends on when you are reading the case study.

Application of economics in the real world 6.6: Glass ceiling for women replaced by reinforced concrete as progress stalls

- 1 A glass ceiling is a term used to describe discrimination in the labour market. It means that there is an invisible barrier which prevents minority groups from being promoted in the workplace. Opportunities that are open to white men from privileged backgrounds are not open to other workers, despite their having the necessary qualifications and experience. The discrimination is based on gender, ethnicity, class and sexual orientation.
- 2 Glass ceilings affect ethnic and religious minorities in the workplace and society. Look up the statistics for the CEOs of the top 100 companies in the Financial Times Stock Exchange (FTSE). The majority will be white middle-class men, a significant number of whom went to independent schools and elite universities. At the time of writing (2019), there are only six female CEOs in the FTSE 100 and there are more CEOs called Steve than CEOs from ethnic minority backgrounds.
- 3 220 women were elected to Parliament on 12 December 2019 – the highest number ever. Of the 140 MPs elected for the first time in 2019, 57 (41%) were women. Among these, 32% of new Conservative MPs were women, 77% of new Labour MPs were women, and 13% of new SNP MPs were women. All newly elected Liberal Democrat MPs were women.



Source: House of Commons Library

The Parliament (Qualification of Women) Act 1918 allowed women aged 21 and over to stand for Parliament for the first time. Constance Markievicz became the first woman to be elected as an MP at the 1918 general election but, along with 72 other Sinn Féin MPs, she did not take her seat in the Commons. Nancy Astor, elected in a 1919 by-election, became the first woman

to sit in the House of Commons. Up to 1987 the number of women MPs elected never went over 30, even though there had been a female prime minister.

There were 19 female MPs elected in 1979, when the UK elected the first female prime minister, 3% of the total. The number of female MPs rose slowly over the next three parliaments to 60 in 1992. The proportion of seats held by women doubled in 1997, when 120 women were elected. This was the first time women held more than 10% of seats (18% of all MPs).

That number fell back to 118 at the 2001 election, but has risen at each subsequent general election. At the 2017 general election, 208 female MPs were elected (32% of all MPs). By November 2019, when the House dissolved for the 2019 general election, there were 211 female MPs.

Of the 220 women MPs in 2020, 87 were Conservative (24% of all Conservative MPs, up from 21% in 2017); 104 were from Labour (51%, up from 45% in 2017), 16 were SNP (33%, down from 34% in 2017) and seven were Liberal Democrats (64%, up from 33% in 2017). There were also six female MPs among other party groups.

Source: House of Commons Library

With regard to female representation on company boards, in 2016, the government set the UK's biggest organisations a voluntary target of having 33% of their board-level roles occupied by women by the end of 2020. Writing in the magazine *Personnel Today* on 8 February 2020, Ashleigh Webber stated that 'FTSE 100 companies have met their target to have a third of all board positions occupied by women almost one year early, but more needs to be done to increase female representation in senior leadership and executive roles.'

The then Conservative business secretary, Andrea Leadsom, welcomed the 'fantastic work' of the organisations that met the target, but said women in some careers still face barriers to progression. For example, only 15% of finance directors in FTSE 100 organisations are female.

FTSE 250 organisations, however, were still some way from achieving the target. Women currently represent just 29.5% of board positions in these firms, according to the Department for Business, Energy and Industrial Strategy.

Leadsom said: 'It's clear that women continue to face barriers to success, whether that's through promotion to key roles or how they are treated by colleagues. Businesses must do more to tackle these issues and we will support them in doing so, including through our world-leading reforms to workplace rights.'

The majority of HR director roles in FTSE 100 firms were taken by women (66%). Female representation was also high in company secretary positions (40%); general counsel and company secretary roles (37%); and general counsel roles (29%).

Just 28.6% of FTSE 100 leadership roles are held by women. In the FTSE 250, this proportion is 27.9%.

Thirty organisations in the FTSE 350 still have only one woman on their board (74 in 2018) and 44 firms have all-male executive committees.

Application of economics in the real world 6.7: Ford car workers in 1968 and after

- 1 According to research conducted in 2018 by Cardiff University Business School, the gender pay gap is greater in the public sector than the private sector. The evidence is complex and there are a number of factors that need to be taken into account. At first glance, the public sector gender pay gap appears to be narrower than the private sector gap. However, once skills and experience are taken into account, the public sector gender pay gap is wider. This means

that there is a greater problem with labour market discrimination in the public sector and this gap widens at the higher end of the income scale.

- 2 According to the Nolo 'Work for All' organisation in the USA, unskilled work involves simple tasks and does not usually require one to exercise judgement. It typically requires only a month or less to learn. Many, but not all, unskilled jobs require physical strength or coordination. An example is a car park attendant.

Skilled work requires workers to use their judgement to make decisions and may require them to measure, calculate, read or estimate. Skilled work often has specific qualifications such as educational degrees or professional training and usually requires intellectual reasoning and problem-solving skills. It typically takes 6 months to a year or more to learn a skilled job. An example is a qualified nurse.

- 3 On 25 August 2015, the Chartered Management Institute (CMI) published a report which claimed that on average women working in equivalent full-time roles earn £8,524 less than men — a difference of 22%. This means that women work unpaid for 1 hour 40 minutes a day — a total of 57 working days every year. The 2015 figure was a marginal improvement on the 2014 pay gap, which stood at £9,069, or 23%. According to data from 2018, women in the UK were still being paid 16.5% less than men.
- 4 The process of globalisation has seen factories in advanced economies, such as the UK, move to emerging economies, such as China. In general, workers in advanced economies have suffered from structural unemployment in declining industries and an increase in relative poverty. In contrast, in the emerging markets millions of workers have been lifted out of absolute poverty and have benefited from significantly higher living standards.

As part of this process, women in the declining industries in advanced economies have experienced falling pay, but women in the fast-growing emerging markets have benefited from higher pay. Nevertheless, the gender pay gap between women and men has increased because the emerging market economies lack the legal frameworks that seek to prevent unequal pay. In the UK, the Equal Pay Act was introduced in 1970 but to this day a gender pay gap still exists. One of the motivations for multinational corporations in relocating to emerging market economies is to take advantage of less regulation.

End-of-chapter questions

- 1 In goods markets, firms are the source of supply and households are the source of demand. However, in labour markets, roles are reversed. Firms are the source of demand for labour services, while households are the source of supply.
- 2 A first factor is labour productivity. If labour productivity increases, firms may substitute labour for capital and employ more labour. On the other hand, they can produce the same amount of output with less labour.
A second factor is business confidence. If firms become more optimistic about the future, they are likely to demand more labour.
A third factor is wage rates. If wage rates fall relative to the price of capital, firms will employ more labour.
- 3 A market supply curve of labour is generally assumed to slope upward, showing that workers are willing to supply more labour as the real wage rate increases. The money wage rate on offer is the first of two factors which influence the amount of labour that workers are willing to supply. The second factor is the utility or economic welfare derived from other aspects of working, sometimes called the non-monetary benefits (job satisfaction or, if negative, job dissatisfaction).

Different types of work yield different amounts of job satisfaction and dissatisfaction. When a worker enjoys the job, the net advantage of work is greater than the welfare yielded by the wage. In this situation, the worker is willing to work for a money wage lower than the wage that would be acceptable if there were no satisfaction from the work itself. But for some workers, work such as routine assembly-line work in factories and heavy manual labour is unpleasant, yielding job dissatisfaction. The supply of labour for this type of employment reflects the fact that the hourly wage rate must be high enough to compensate for the unpleasantness (or sometimes the danger) of the job.

- 4 A perfectly competitive labour market would contain a large number of buyers and sellers of labour, each unable to influence the ruling market price (in this case, the ruling market wage), and operating in conditions of perfect market information. Employers and workers would be free to enter the labour market in the long run, but an individual employer or firm could not influence the ruling market wage through its independent action.
- 5 The elasticity of demand for labour is the proportionate change in demand for labour following a change in the wage rate. It can be calculating using the following formula:

$$\text{elasticity of demand for labour} = \frac{\text{proportionate change in quantity of labour demanded}}{\text{proportionate change in the wage rate}}$$

Elasticity of supply of labour is the proportionate change in the supply of labour following a change in the wage rate. It can be calculated using the following formula:

$$\text{elasticity of supply of labour} = \frac{\text{proportionate change in quantity of labour supplied}}{\text{proportionate change in the wage rate}}$$

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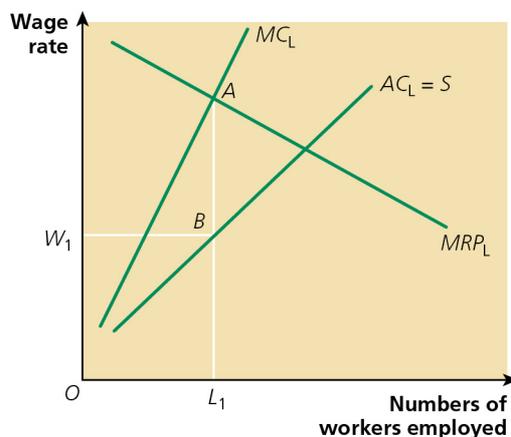


Figure A6.1 Wages in a monopsony labour market

In Figure A6.1, the monopsonist's level of employment is determined by the point where $MRP_L = MC_L$. This occurs at point *A*, with L_1 workers being hired. However, the wage rate is determined at point *B* on the supply curve (and AC_L curve), which lies below point *A*. The monopsony wage rate W_1 is therefore less than the marginal revenue product of labour. At point *B*, L_1 workers are willing to work for an hourly wage rate of W_1 .

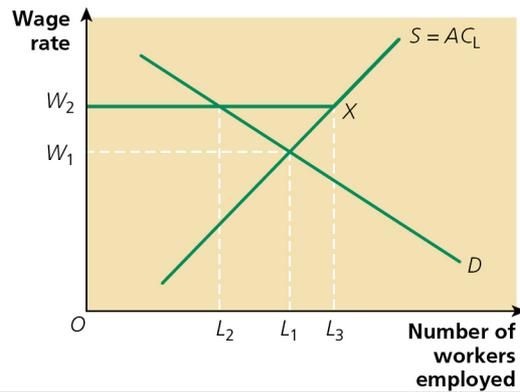


Figure A6.2 Effect of a trade union on a perfectly competitive labour market

Whether or not a wage increase determined by a trade union reduces the level of employment depends on the previous competitiveness of the labour market. Figure A6.2 shows a perfectly competitive labour market with the wage rate at W_1 . After the workers have joined a trade union, the wage rate rises to W_2 , which is the minimum wage rate acceptable to union members. Without the union, the market supply of labour curve is the upward-sloping line labelled $S = AC_L$. With the union, the market supply of labour curve is the kinked line W_2XS . At the wage level set by the union, employers only wish to hire L_2 workers. However, L_3 workers are willing to work at this wage rate. This means there is excess supply of labour and unemployment in the labour market. More workers wish to work than there are jobs available. The resulting unemployment is shown by the distance $L_3 - L_2$. However, the fall in employment compared to the competitive equilibrium is $L_1 - L_2$.

In the case of a monopsonistic labour market, it is possible for a union to raise *both* the wage rate and employment. This is illustrated in Figure A6.3.

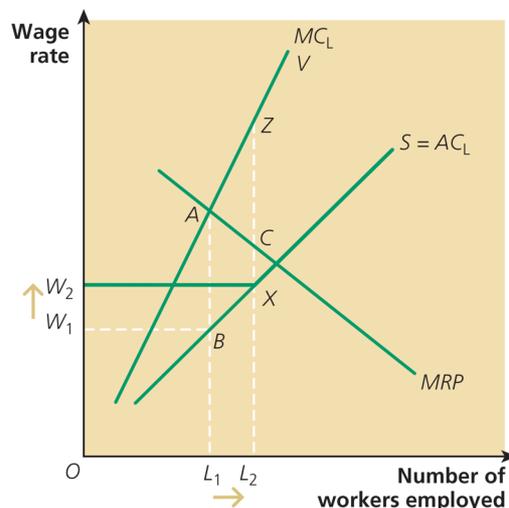
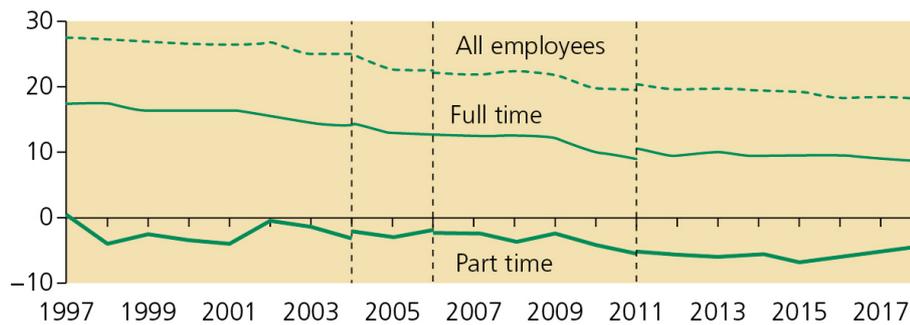


Figure A6.3 Effect of a trade union on a monopsonistic labour market

If the monopsonistic labour market is non-unionised, the equilibrium wage rate is W_1 and the level of employment is L_1 . When the union sets the wage rate at W_2 , the kinked line W_2XS becomes the labour supply curve (and also the AC_L curve). But in monopsony, W_2XS is *not* the marginal cost of labour curve. The MC_L curve is the double-kinked line W_2XZV . When the union sets the wage rate at W_2 , employment rises to L_2 , which is the level of employment at which the MRP curve intersects the gap or discontinuity in the MC_L curve at point C , between X and Z . The union has managed to increase both the wage rate and the level of employment.

% difference in median hourly pay excluding overtime for male and female employees

Note: Dashed lines indicate breaks in the series in 2004, 2006 and 2011.

Source: House of Commons Briefing Paper, November 2018

Figure A6.4 The UK gender pay gap, 1997–2018

The gender pay gap measures the difference between average hourly earnings of men and women. According to a House of Commons briefing paper published in 2018 (see Figure A6.4), with regard to full-time workers, women tend to be paid less per hour than men, while the opposite is true for part-time employees. Median hourly pay for full-time employees was 8.6% less for women than for men at April 2018, while median hourly pay for part-time employees was 4.4% higher for women than for men (figures exclude overtime pay).

However, a much higher share of women than men are employed part time, and part-time workers tend to earn less per hour than those working full time. Consequently, when we look at the gender pay gap for all employees, it is considerably larger than the full-time or part-time pay gaps: on this basis, median pay for all employees was 17.9% less for women than for men in April 2018. Broadly speaking, there has been a downward trend in the full-time pay gap since 1997 and the overall pay gap has also decreased over the period. The part-time pay gap has generally remained small and negative, with women earning more than men on average.

Test yourself answers

TEST YOURSELF 6.1

Derived demand is demand for a factor of production that occurs as a result of the demand for another good. Demand for steel leads to derived demand for steel workers and also for rail transport. Second, if the demand for potatoes increases, then this leads to an increase in the demand for labour, as well as demand for other factors of production such as fertiliser.

TEST YOURSELF 6.2

Marginal physical product indicates how much total production changes by employing another unit of labour. Marginal revenue product, however, indicates how much total revenue changes by employing another unit of labour.

TEST YOURSELF 6.3

The marginal revenue product of labour is the marginal physical product multiplied by marginal revenue. In this example:

Size of labour force	Marginal physical product of labour	Marginal revenue	Marginal revenue product of labour
1	5	£60	£300
2	7	£60	£420
3	9	£60	£540
4	10	£60	£600
5	9	£60	£540
6	6	£60	£360
7	4	£60	£240
8	1	£60	£60
9	0	£60	£0
10	-2	£60	-£120

TEST YOURSELF 6.4

Two other causes of a rightward shift in the demand for labour to produce a particular good are:

- The good becomes more fashionable, so more labour is demanded to produce more of the good so as to meet the increase in demand;
- The good is in joint demand with some other good. Demand for the other good increases, so more labour is demanded to produce the good that goes with it.

TEST YOURSELF 6.5

Economic welfare is human happiness, derived from three sources:

derived from goods and services + purchased in the market economy	+ derived from public goods and merit goods provided collectively by the state	+ derived from quality of life factors, including external benefits minus external costs and intangibles
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TEST YOURSELF 6.6

Two factors are, first, raising the age at which workers can claim the state pension and, second, a change in the law to require all employers to provide free nurseries for the children of all their workers. In the former case, many workers will choose to continue to work rather than to retire.

TEST YOURSELF 6.7

The formula for price elasticity of demand is:

$$\text{Price elasticity of demand} = \frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}}$$

The formula for price elasticity of supply of labour is:

$$\text{Price elasticity of supply of labour} = \frac{\text{percentage change in quantity supplied of labour}}{\text{percentage change in price of labour}}$$

TEST YOURSELF 6.8

Profit maximisation occurs when a firm produces the output at which total revenue minus total cost is greatest. This can also be stated as the level of output at which marginal revenue equals marginal cost ($MR = MC$).

TEST YOURSELF 6.9

Monopsony is a single buyer in a market, whereas monopoly is a single seller in a market.

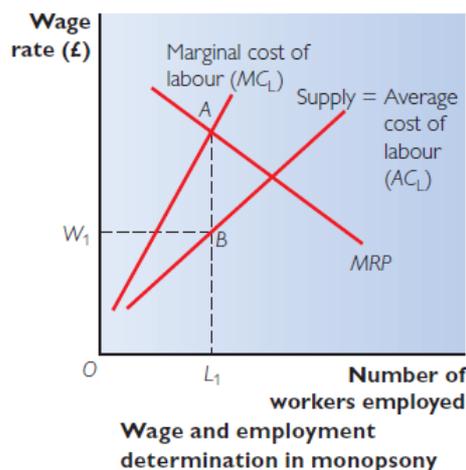
TEST YOURSELF 6.10

The word ‘monopsonistic’ refers to a market in which there is a dominant buyer of a good (or of a factor of production such as labour), but there are other buyers which are smaller and with much less monopsony power. Pure monopsonies are quite rare, but monopsonistic markets are more common. For example, in the market for healthcare the National Health Service is the dominant buyer, though it faces some competition from private healthcare providers.

TEST YOURSELF 6.11

A monopsony has buying or bargaining power in its market, which means that it can try to exploit this power with a supplier to negotiate lower prices or wages.

TEST YOURSELF 6.12



The diagram shows the equilibrium wage and level of employment in a monopsony labour market. As in a perfectly competitive labour market, the firm's equilibrium level of employment is determined where $MRP = MC_L$. This is at point *A* in the diagram. However, the equilibrium wage is below *A* and less than the MRP of labour, being determined at point *B* on the supply curve of labour. Although the monopsonist could pay a wage determined at *A* and equal to the MRP of labour, without incurring a loss on the last worker employed, it has no need to. The monopsonist can employ all the workers required by paying the wage W_1 , determined at point *B*.

TEST YOURSELF 6.13

Two examples of occupational immobility of labour are, first, when a worker lacks the skills required to move into a different type of employment and, second, when a trade union or a professional body limits entry into a particular type of work.

Two examples of geographical immobility of labour are, first, when costs of moving between regions or cities are very high and, second, when immigration controls prevent workers moving between different countries.

TEST YOURSELF 6.14

Besides bargaining with employers to improve pay, a union might bargain to improve the private pension that many employers contribute to, additional to the state pension.

TEST YOURSELF 6.15

The national minimum wage is the minimum pay per hour to which most workers aged 16 to 24 are entitled. The government reviews these rates every year and is advised on the level to set the minimum wage at by the Low Pay Commission. The minimum wage for workers 25 and over is called the national living wage.

TEST YOURSELF 6.16

Workers can receive different wages, not directly related to their productivity, on the basis of age, gender and ethnicity.