

4 The labour market

Case studies

Case study 4.1

- 1 On the ground 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 maintain the mystique and salaries of those they already employ.

Case study 4.2

- 1 According to the Nolo 'Work for all' organisation in the USA, unskilled work involves simple tasks and doesn't 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. By contrast, semi-skilled work requires paying attention to detail or protecting against risks, but it doesn't include complex job duties. Semi-skilled work doesn't require you to have advanced training or education and it typically takes between three and six months to fully learn a semi-skilled job. An example of a semi-skilled worker is a taxi driver.

Finally, 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 six months to a year or more to learn a skilled job. An example is a qualified nurse.

- 2 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 CMI's 2015 National Management Salary Survey found that the average female salary of £30,612 was £8,524 less than the £39,136 paid to men. This is a marginal improvement on the 2014 pay gap, which stood at £9,069, or 23%.

Test yourself

Test yourself 4.1

Since the price of wheel barrows is always £10, this is the marginal revenue firms earn when they sell an extra unit of output. And since:

$$MRP = MPP \times MR$$

the answers to the question are shown in the right-hand column of the table below.

Size of labour force	TPP	MPP	MRP (£)
0	0		
		5	50
1	5		
		7	70
2	12		
		9	90
3	21		
		10	100
4	31		
		9	90
5	40		
		6	60
6	46		
		4	40
7	50		
		1	10
8	51		
		0	0
9	51		
		-2	-20
10	49		

Questions

- Three factors that are significant in determining a firm's demand for labour are:
 - The amount of extra output produced by a worker added to the labour force. This is the marginal physical product (*MPP*) of labour.
 - The amount of extra sales revenue earned when it employs an extra worker. This is the marginal revenue product (*MRP*) of labour.
 - Costs incurred if market conditions change and a firm has to fire or sack a worker it previously took on. If a firm is pessimistic about future business prospects, it may decide against employing an extra worker.
- The market supply curve of labour is the sum of the supply curves of all the workers in the labour market. The marginal private benefit received by a worker from supplying labour equals the marginal private cost incurred from giving up leisure time. Provided personal preferences remain stable, there is no incentive for an individual worker to supply more labour at the going hourly wage rate. However, a higher hourly wage will provide an

incentive to work more hours. With a higher wage rate, at the margin, the welfare derived from the wage becomes greater than the welfare derived from the last unit of leisure time enjoyed. To maximise personal welfare at the higher wage rate, the worker would be expected to supply more labour and enjoy less leisure time. The result is the upward-sloping labour supply curve for an individual worker.

Non-monetary considerations also affect the supply of labour, both for individual workers and for market supply. Different types of work yield different amounts of positive or negative utility or welfare (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.

- 3 In a perfectly competitive labour market, the market wage rate would be set in the market as a whole at the point where the market demand curve of labour intersects the market supply curve of labour. Each employer in a perfectly competitive labour market would then face a perfectly elastic supply of labour at the ruling market wage set by the market. Employers would have to passively accept the ruling market wage and act as passive wage takers. Each employer would be just one among many in the market, able to hire whatever number of workers it wished to employ, provided only that the ruling market wage would be offered to all employees taken on. It would hire workers up to the point at which the marginal revenue product of its labour force equalled the market wage rate, which would be the same as the marginal input cost of labour.
- 4 The answer to this question depends on the type of labour market in which firms or employers operate. If a union is introduced into a previously perfectly competitive labour market and uses its market power to force employers to pay a wage rate above the market-determined wage rate, jobs will probably, though not necessarily inevitably, be lost. (If the union took action to raise labour productivity, employment might not fall.) However, if the union was introduced into a monopsony labour market, then subject to certain assumptions, both the wage rate and the level of employment might increase.
- 5 There are a number of reasons why women are often paid less than men. These include the following:
 - Women work predominantly in low-paid industries and occupations.
 - Within many occupational groups, women are paid less than men. This is often because women are under-represented in the higher-paid posts within an occupation, rather than because women are paid less for doing the same job.
 - Discrimination against women in labour markets may contribute to both these sets of circumstances.
 - Women are disproportionately represented in industries where the average size of firm and plant is small. These industries tend to pay lower wages and offer fewer promotion prospects than large firms and large industries.
 - Within all industries, women workers have traditionally been less unionised than men.
 - Female attachment to the labour force is weaker than that of men. Each year of work experience has been said to raise the pay of both men and women by an average of 3%. Yet when women leave the labour force, usually to look after young children, their potential pay falls by 3% for each year involved. For example, suppose a man and woman enter employment with equal potential and after 8 years the woman leaves the workforce in order to raise a family. If she re-enters the labour force 8 years later, she will be 16 years, in pay terms, behind the man.

- The higher labour turnover of women also imposes costs on the employer, such as the costs of training replacement workers. This may reduce the incentive for employers to train female workers.
- Similarly, women may have less incentive to spend time and money on their own education and training if they expect the benefits that they will eventually receive to be less than the costs initially incurred.