

LEARNING UNIT 10

- **DATE:** 2014
- **MODULE:** PMIC6111
- **TEXTBOOK REFERENCE:**
- **THEME:**
- **OBJECTIVES:** BY END OF LEARNING UNIT 10 – YOU SHOULD KNOW THE FOLLOWING:

LEARNING UNIT 10

The labour market vs. the goods market

Differences between labour market and goods market

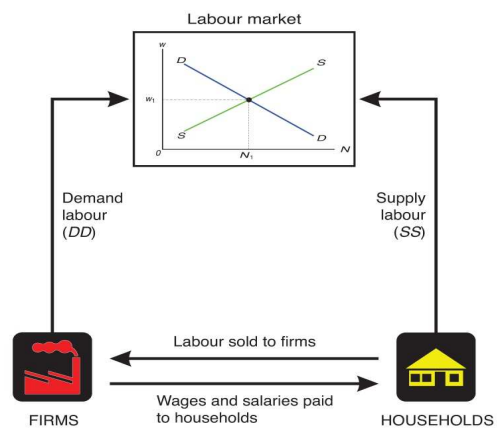
- Non-monetary factors important
- Labour services are not transferable
- Labour is rented not sold
- Non-economic considerations

LEARNING UNIT 10

- Trade unions, employees' associations, collective bargaining and government intervention
- Long-term contracts
- Heterogeneous
- Variety of labour markets, segmented market
- Non-wage benefits
- Remuneration is affected by a number of factors which are not directly related to labour market conditions

LEARNING UNIT 10

Where the labour market fits in



The interaction between households and firms in the labour market

LEARNING UNIT 10

A perfectly competitive labour market

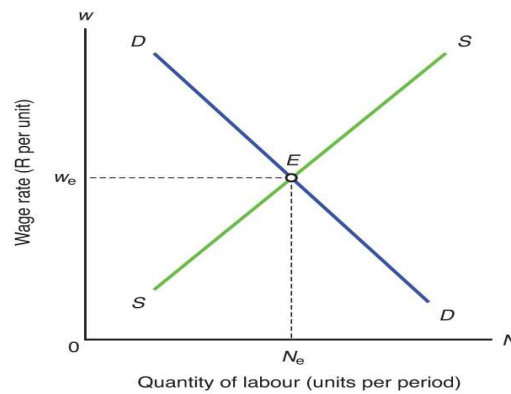
Requirements for perfect competition

- Large number of buyers and sellers
- Homogeneous labour
- Completely mobile
- No government intervention
- Perfect knowledge
- Perfect competition in the goods market

LEARNING UNIT 10

Equilibrium in the labour market

quantity demanded = quantity supplied



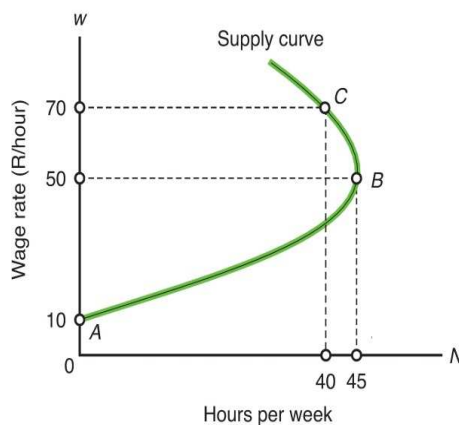
Equilibrium in a perfectly competitive labour market

LEARNING UNIT 10

The individual supply of labour

Backward-bending supply curve

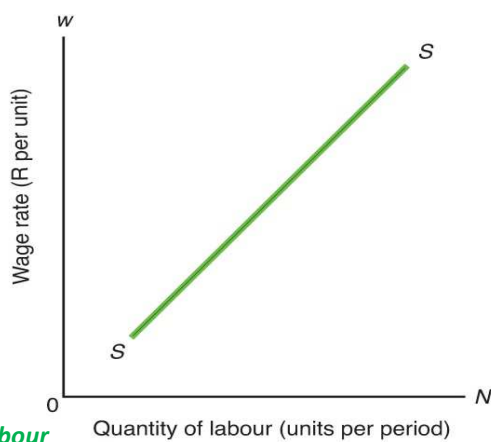
- Substitution effect
- Income effect



The individual supply of labour

LEARNING UNIT 10

The market supply of labour



The market supply of labour

LEARNING UNIT 10

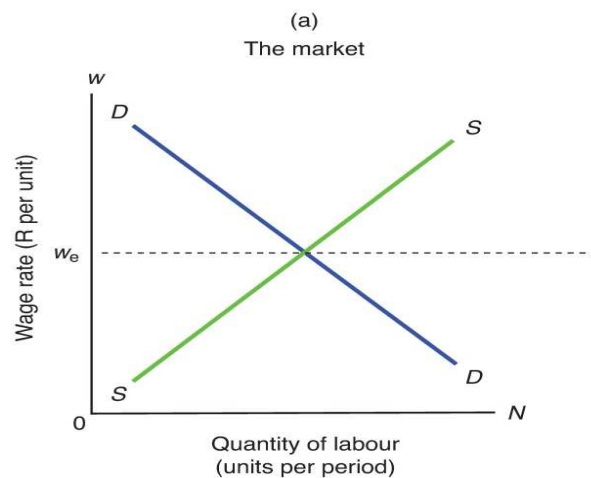
An individual firm's demand for labour

- Derived demand
- Compare marginal benefit to marginal cost
- Price taker

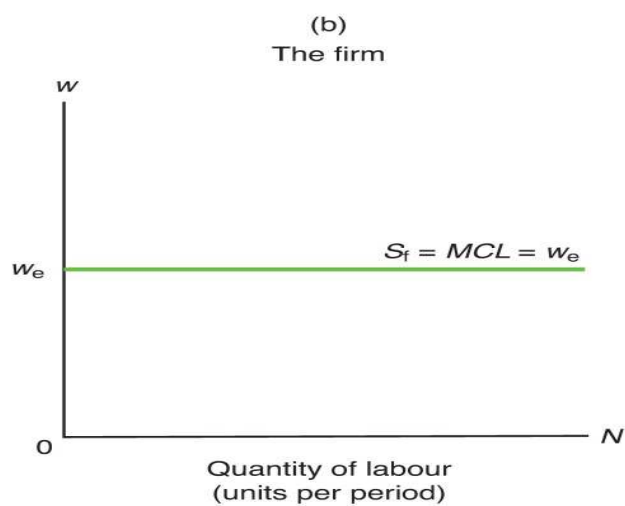
- How much labour will the firm employ at the given wage rate?

LEARNING UNIT 10

A perfectly competitive labour market



LEARNING UNIT 10



LEARNING UNIT 10

- Marginal revenue product of employing additional units of labour
 - Physical productivity of labour
 - Marginal revenue product

- Marginal cost
 - Wage rate

LEARNING UNIT 10

➤ Equilibrium

– Marginal revenue product = wage rate

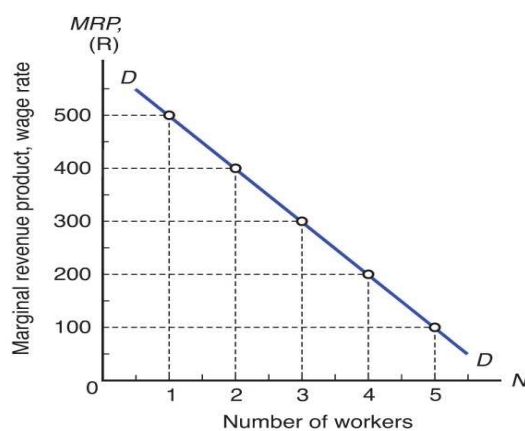
EXAMPLE 1

Number of workers N	Total physical product (number of shirts per week)	Marginal physical product (number of shirts per week) MPP	Price per shirt (R)	Marginal revenue product (R per week) MRP
0	0	0	50	0
1	10	10	50	500
2	18	8	50	400
3	24	6	50	300
4	28	4	50	200
5	30	2	50	100

Calculation of the marginal revenue product of labour: an example

LEARNING UNIT 10

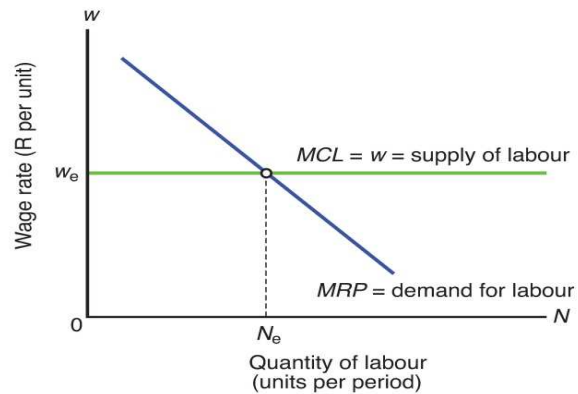
EXAMPLE 2



The individual firm's demand for labour

LEARNING UNIT 10

EXAMPLE 3



The equilibrium position of a firm operating in a perfectly competitive labour market

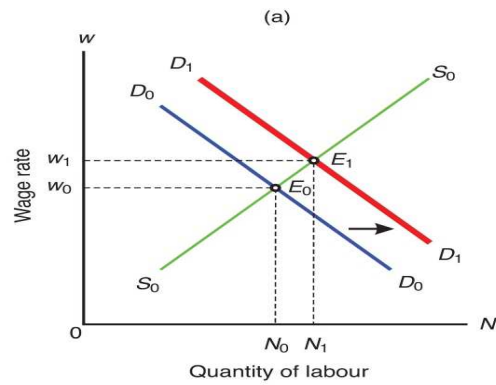
LEARNING UNIT 10

- The market demand will shift if:
 - The number of firms change
 - The price of the product changes
 - MPP (or productivity) changes
 - A new substitute for labour becomes available
 - The price of a substitute factor of production changes
 - The price of a complementary factor of production changes

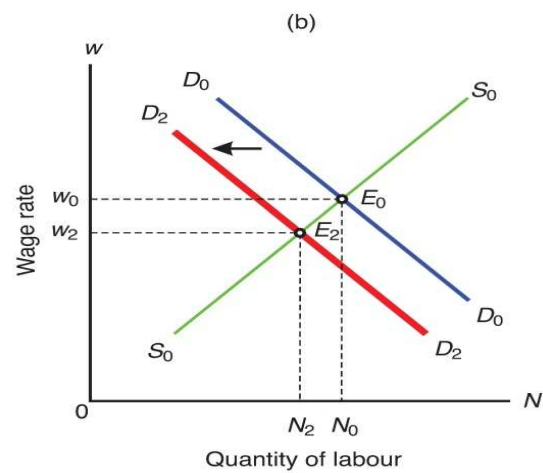
LEARNING UNIT 10

Changes in labour market equilibrium

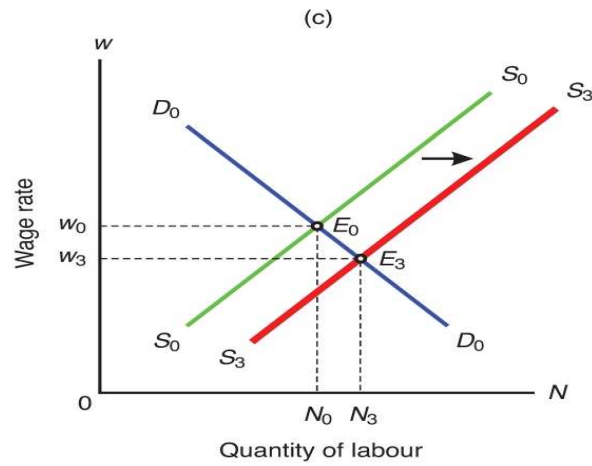
Changes in labour market equilibrium



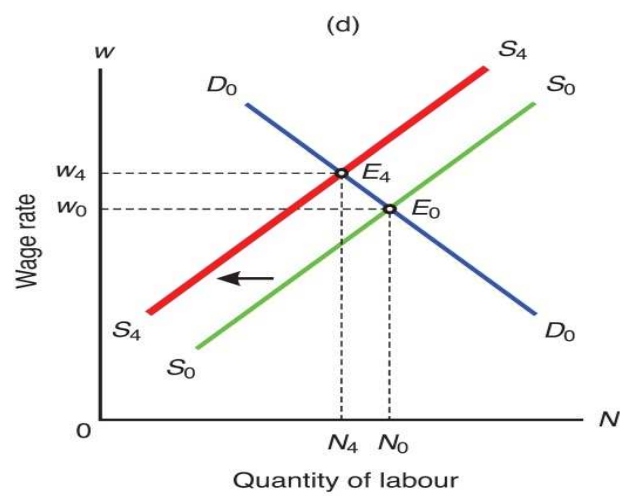
LEARNING UNIT 10



LEARNING UNIT 10



LEARNING UNIT 10



LEARNING UNIT 10

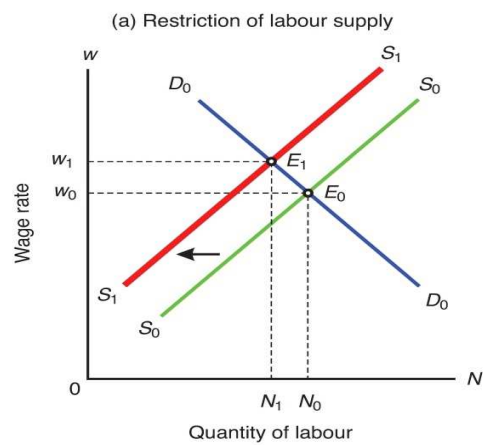
Imperfect labour markets

Reasons for imperfect labour markets

- Trade unions (act as monopolistic suppliers of labour)
 - Impact on the labour market

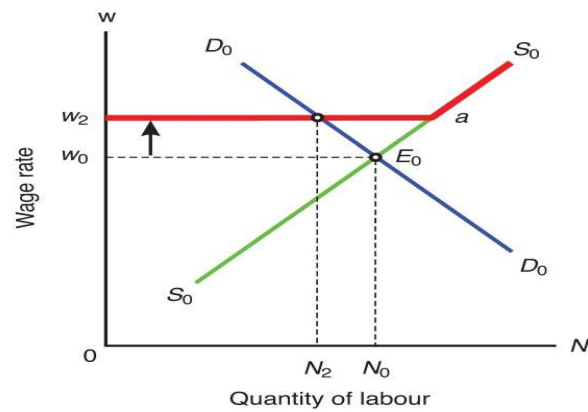
LEARNING UNIT 10

Ways in which a trade union can attempt to increase the wage rate



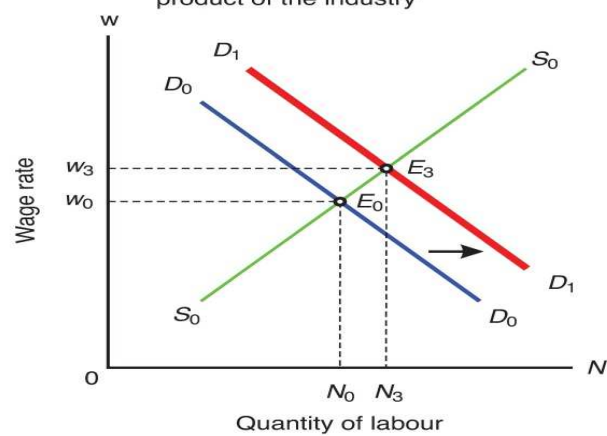
LEARNING UNIT 10

(b) A higher (disequilibrium) wage rate



LEARNING UNIT 10

(c) Increase in the demand for the product of the industry



LEARNING UNIT 10

- Labour is heterogeneous
- Labour is not completely mobile
- Government intervention
 - Impact on the labour market
- Imperfect knowledge

LEARNING UNIT 10

