

Key Words

Labour Market	Where workers sell their labour and employers buy the labour: it consists of households' supply of labour and firms' demand for labour
Derived demand	Derived demand means that the demand for labour depends on the demand for the product that labour helps to produce.
Supply of Labour	The total number of people who are willing and eligible to supply their labour, including the unemployed
Trade Union	An organisation of workers who act to protect and further their rights and interests
Gross pay	Pay before deductions are taken
Net pay	Pay - deductions
Deductions	Payroll deduction involves withholding amounts from the salary of an employee to pay for taxes and employee welfare contributions.
Income tax	A tax levied directly on personal income
National insurance	A contribution paid by workers and their employers towards the cost of state benefits
Pension contributions	Payments made to a pension fund for use when you retire. If you are employed, you and your employer will make contributions into your pension fund.
Labour mobility	The labour market lacks perfect mobility. This means that workers cannot move freely from one job to another. This may be because they lack the skills required or they may be unwilling to relocate to another part of the country or they may not have the information about where jobs are available.

2.7 The Labour Market

What is the labour market?

The labour market consists of the supply of labour by households and the demand for labour by firms.

The interaction of demand and supply for labour will give the price for labour (wages).

Wages provide an income to households but are a cost to firms.

The role of the labour market

- To enable workers who are willing and able to sell their labour to meet employers who are willing and able to give them a job.
- To determine the wage rate for this work.

What is meant by the interaction of workers and employers?

Individual workers can deal directly with their employer to establish wages, working conditions etc
Many workers belong to a trade union. The trade union will interact with employers on behalf of its members to establish wages, working conditions etc. This is known as collective bargaining

What might prevent the perfect operation of the labour market?

There is not perfect mobility in the labour market. Labour cannot move freely from one job to another.

Possible reasons:

- Lack of skills
- Unwillingness to relocate
- Personal factors
- Lack of information about available jobs

Gross pay



Wages before taxes and other deductions.

Deductions



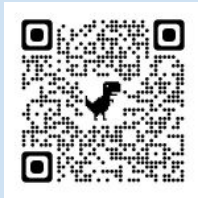
Items taken away from gross pay such as income tax, national insurance, pension contributions and student loans.

Net pay



Wages after taxes and other deductions.

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2.7 The Labour Market

Supply and Demand of Labour

What is the demand for labour?

A derived demand as it depends on the demand for the product that the labour helps to produce. If consumers want more of a product, firms will demand more labour.

What factors affect the demand for labour?

The state of the economy – more labour is demanded as the economy grows

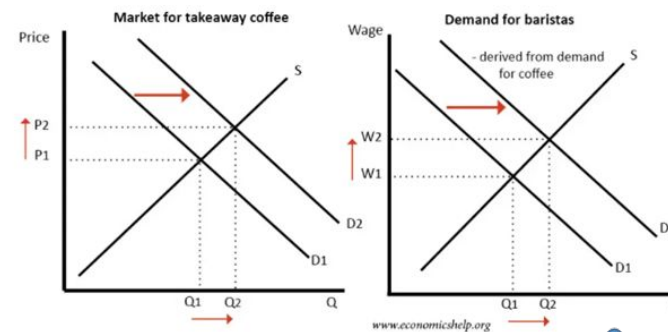
Demand for goods – If demand in a particular market is growing fast then the demand for labour in the market will increase

Wage rates – there is an inverse relationship between wage rates and the demand for labour; less labour will be demanded at higher wages

Productivity of labour – If this rises, labour may become cheaper than capital investment

Profitability of firms – firms making large profits are likely to expand and therefore need more workers.

Factors in red will cause a shift of the curve



What is meant by the supply of labour?

The working population; those who are both willing and able to supply their labour.

What factors affect the supply of labour?

Wage rate – higher wages will attract more workers

Other money payments – overtime, bonus payments etc

Size of working population – affected by retirement and school leaving ages, migration etc

Non-monetary factors – working conditions, job security etc

Barriers to entry – necessary qualifications, trade unions, discrimination etc

Education and training – will increase the number of skilled workers

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