2.7 The Labour Market

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
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

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

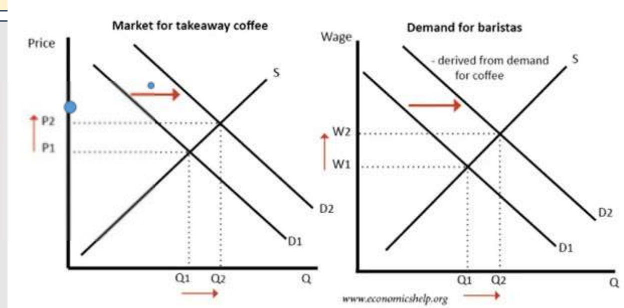
- To enable workers who are willing and able to sell their labour to meet employers who are willing and able to give them a job.
- To determine the wage rate for this work.

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

Supply and Demand of Labour



Notice that on the labour market diagram the vertical axis is labelled as 'wage'

What is meant by the supply of labour?

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

What is 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

Factors in red will cause a shift of the curve

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.

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