

## Economics Revision

# AS Economics

# Labour Market

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## The Demand for Labour

Derived demand of labour – demand for labour derived from the demands of the goods it produces.

Determinants of D for labour:

- 1) **Demand for Final Product** – increased demand for final product → increased D for labour.
- 2) **Wage Rate** – decreased wage rate → increased demand for labour – labour is more affordable.
- 3) **Labour Costs** – e.g. decreased national insurance contributions of employers → increased demand for labour.
- 4) **Resource Prices** – increased P of capital may increase demand for labour – substitutes in the production process.
- 5) **Productivity** – increased output per worker may increase revenue/profits and increase D for labour.
- 6) **Government regulation** – fewer regulations → increased D for labour – regulations decrease flexibility and so firms are less willing to employ people – NMW above equilibrium wage → decreased D for labour.

## The Supply of Labour

Determinants of S for labour:

- 1) **Wage Rate** – increased wages → increased S of labour.
- 2) **Advantages of Work** – better working conditions/benefits → increased supply, e.g. good pension.
- 3) **Migration** – increased immigration → increased supply of labour.
- 4) **Income Tax** – decreased income tax → increased disposable income → incentive to work → increased supply.
- 5) **Benefit Reform** – decreased benefits → increased incentive to find work → increased supply of labour.
- 6) **Government Regulation** – increased employment protection/NMW – improve working conditions and therefore increase supply BUT problems can arise (like with Trade Unions)
- 7) **Social Trends** – increased number of women working → increased S of labour.
- 8) **Trade Unions** – try and force wage above equilibrium → increased supply of labour BUT may → excess supply.