Determining Wage Rates

Labor Supply and Demand

Demand for hours of work. All workers are alike, so an hour of work is an hour of work.

Each worker supplies $h$ hours of work. The higher the wage rate, the more hours supplied.

A major simplification; we come back to this supply curve in subsequent lectures.
Determining Wage Rates

Labor Supply and Demand

Total supply is \( H = hN^* \)

Labor Supply and Demand

Assumptions

- All \( N^* \) workers are alike
- \( w^* \) is the hourly wage rate
- Each worker spends \( h^* = \frac{H^*}{N^*} \) hours in work

A Spending Spree

- Perhaps the government starts to spend more.
- Perhaps people become more optimistic about the future.

Wage Rates Up
Determining Wage Rates

A Spending Spree

People work harder.

Many make this argument to support increased government spending when times are bad.

As we shall see there is more to the story.

Labor Supply and Demand

We will apply this to some additional cases.

More people reach working age.
Determining Wage Rates

More people reach working age

The wage rate falls

Total hours worked rise

Not everyone works.
Suppose more people worked. Same effects.

Factoid
During the 1930’s this argument was used in support of social security and against women working.
Determining Wage Rates

More people reach working age

Not everyone works. Suppose more people worked. Same effects.

Factoid
During the 1930s this argument was used in support of social security and against women working.

New technology, more capital

The fewer people working, the higher the wages for “real” workers.

Wage rates up

People work harder

People make more money

End

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