Short Run Labor Demand

More people reach working age

The wage rate falls

Total hours worked rise

An Alternative View

\( Y = AK^\alpha L^{1-\alpha} \)
There is a fixed demand for output. Knowing $A$, $K$, and $Y$, we know $L$.

There is a problem here.

Ergo, no change in total hours worked, just more workers working fewer hours.
Short Run Labor Demand

Labor Supply and Demand

\[ \pi = AK^\alpha L^{1-\alpha} - wL \]

Firms want to hire the workers. A combination of lower wages and increased output does the job.

So where is the extra demand

Say’s Law

• Jean Baptiste Say
  – “Supply Creates its own Demand”

Does Say’s Law Work

• In time yes, absolutely.
  – There is controversy over whether it works immediately.
Does Say’s Law Work

- In time yes, absolutely.
  - There is controversy over whether it works immediately.
- We will assume Say’s Law here.
  - But, we shall return.

More people reach working age

If you wish, think of this as a short run labor demand curve

Possible, but remember our query “Does it fit the facts”?

More interesting to work with short run labor supply

The Principle of Parsimony
End