Temporary or Permanent?

The Demand Curve

The demand curve shows us the demand for work as a function of the wage rate.

The Long Run Supply Curve

The demand curve shows us the demand for work as a function of the wage rate. The long run supply curve SLR shows us how people will respond to a permanent rise in labor demand.

The Short Run Supply Curve

The demand curve shows us the demand for work as a function of the wage rate. The short run supply curve SSR shows us how people will respond to a temporary rise in labor demand.

Expectations

Or what they expect is a temporary rise.
When are you on your short run labor supply and when are you on your long run labor supply function?

John Smith

John Smith, currently employed at $10 an hour, loses his job. He starts looking for a new, comparable job, but it will take some time. In the meantime, the best he can find is a pizza baker at $6 an hour.

Frank Wilson

Frank Wilson is a junior economics major. Right now, the best job he can find is a job at Miller’s Pizzeria at $6 an hour.

Bill Wilson

Bill Wilson, Frank's twin brother, is not going to college. He, too, learns that the best job he can find is baking pizzas at $6 an hour.
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Bill is on his long run labor supply curve.

Life is Uncertain

Sometimes it isn't clear whether you which curve you are on.

Sally Jones

Sally Jones is majoring in Fashion Design. One of her designs has fascinated a famous designer in New York, who has offered her the chance to come to Manhattan and work at $100 an hour completing the design and helping design a whole line.

It isn't clear whether Sally is on her long run or short run labor supply curve.

Edith Wilson

Edith Wilson has been laid off from her $20 an hour job. The best job she can find now is at $14 and hour, and she cannot do better unless the economy picks up.

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Edith, alas, doesn’t read business publications often. On the few occasions she does read, she is skeptical about what she reads.

Though Edith should read more, she gets kudos for some skepticism. No matter what the papers say, however, Edith is on her LR curve if she does not expect recovery, and her SR curve if she does.

Some years later, Edith Wilson has been laid off again from her $20 an hour job. The best job she can find now is at $14 an hour, and she cannot do better unless the economy picks up. Having learned her lesson, she reads more. Now Business Week and the Wall Street Journal say recovery is uncertain.

Should Edith move along her LR or SR labor supply curve? This is a tricky problem. We will come back to it.
Jacque Dreze, a French Citizen, finds his after tax wages cut by 40% thanks to new government taxes.

The good news is that the French government spends the money on things for Jacque which he would have bought anyway.

Summary

- Often, it is clear when a wage rate is temporary or permanent.
Often, it is clear when a wage rate is temporary or permanent. But there are cases when it is not.

The uncertainty case is complicated. We focus initially on the certain cases.

End