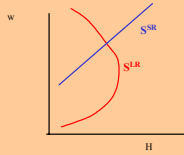
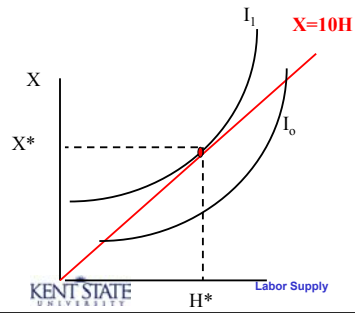


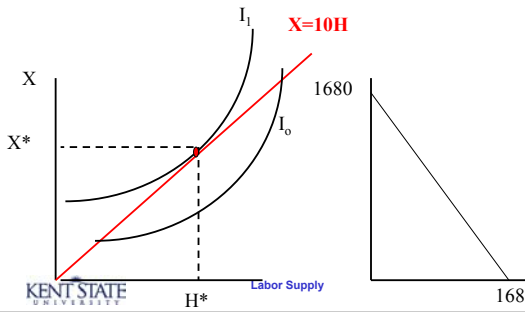
## Labor Supply



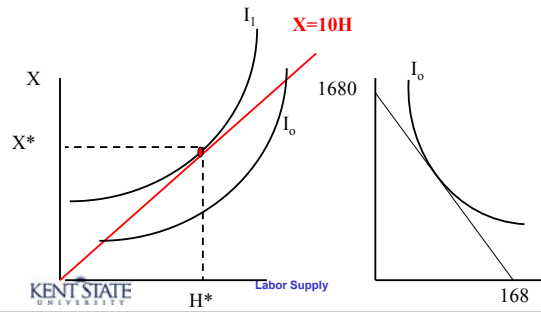
## The Work Leisure Choice



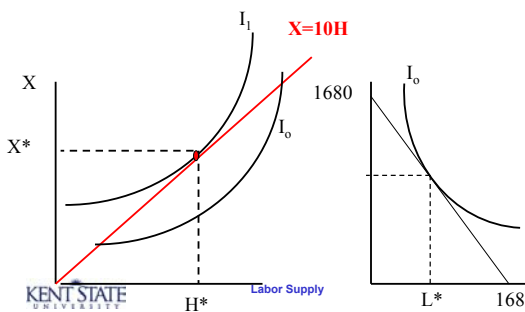
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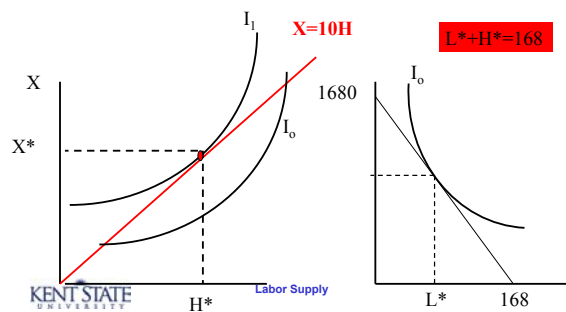
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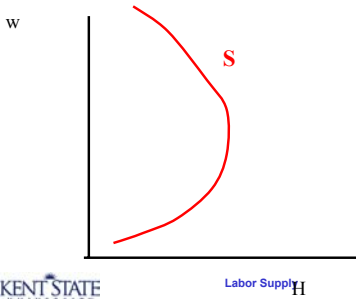


## The Work Leisure Choice



$L^*+H^*=168$

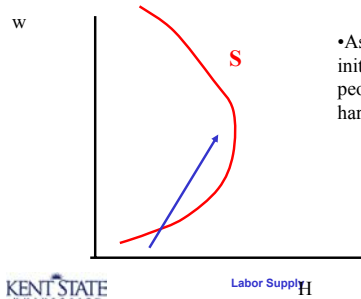
## The Backward Bending Labor Supply Curve



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Labor Supply H

## The Backward Bending Labor Supply Curve

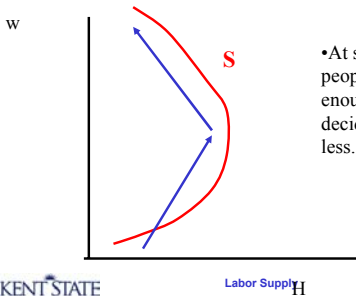


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Labor Supply H

•As wages initially rise, people work harder

## The Backward Bending Labor Supply Curve



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Labor Supply H

•At some point, people are making enough money and decide to work less.

## Hours worked over time

Average Hours Worked Per Person in the United States, 1870-1989			
Year	Hours Worked	Per Capita GDP (1989\$)	Implied "Wage Rate"
1870	2,964	2,254	\$0.76
1890	2,789	3,115	\$1.12
1913	2,605	4,868	\$1.87
1929	2,342	6,336	\$2.71
1938	2,062	5,568	\$2.70
1950	1,867	8,611	\$4.61
1960	1,795	9,995	\$5.57
1973	1,717	14,103	\$8.21
1987	1,608	17,340	\$10.78
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Labor Supply

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Labor Supply

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- Normally, if an hour of leisure costs you more, you will purchase less of it
- **However**, as your wage rate rises, your income rises and you want more leisure.

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- Suppose your employer offered you an additional \$10 an hour for every hour you worked this week and only this week.

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- You might decide to work 10 extra hours
  - There is a substitution effect.
  - The effect on your lifetime income is negligible

## An Interpretation

- Now suppose you got a permanent pay raise of \$10 an hour.

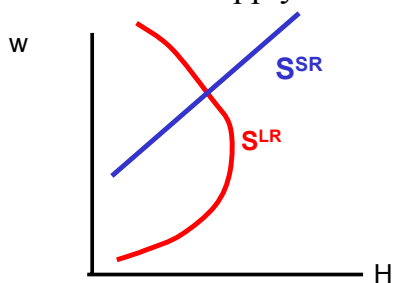
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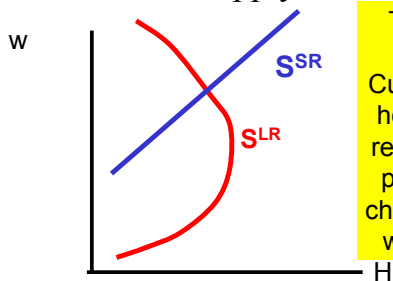
## An Interpretation

- Now suppose you got a permanent pay raise of \$10 an hour.
  - Most people would choose to work less over their lifetime.
  - They might not reduce the amount they work right now, but might retire earlier.

## Long Run and Short Run Labor Supply Curves

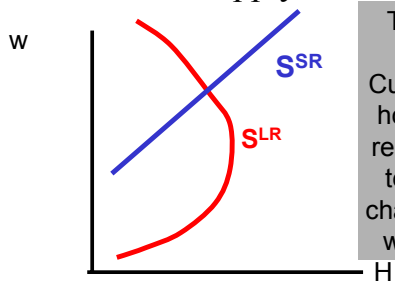


## Long Run and Short Run Labor Supply Curves



The Long Run LS Curve shows how people respond to a permanent change in the wage rate.

## Long Run and Short Run Labor Supply Curves



The Short Run LS Curve shows how people respond to a temporary change in the wage rate.

## Some Examples

- College students work fewer hours than they would if this were their “permanent wage”.

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- People who temporarily fall on hard times don’t work many hours at the low wages they can earn on a temporary job.
- We all work hard when a lucrative opportunity comes along.

## Some Caveats

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  - Workers have traditionally varied their hours of work over the course of the year. To adjust for the Christmas effect or the Finals week effect, we interpret this as an “average” week.

## Some Caveats

- The notion of a single week as a basis for labor supply is limiting.
- People “bunch” their labor supply at times when wage rates are higher when business is booming.

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- People “bunch” their labor supply at times  
Teachers work harder during September - May  
We all tend to work harder during the middle of our life span, for that is when the combination of abilities and physical stamina is at its peak

End

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