Topics in Labor Supply and Demand

Equilibrium
The intersection of supply and demand determines wage rates and hours worked.

A Shift in Demand
Now suppose the demand curve shifts to the right.

The Short Term Response
If people perceive this as a temporary shift, we move along the SR labor supply curve.

The Short Term Response
If people perceive this as a permanent shift, we move along the LR labor supply curve.

Wages go up and people work more hours.

A Permanent Shift in Demand
If people perceive this as a permanent shift, we move along the LR labor supply curve.
A Permanent Shift in Demand

If people perceive this as a permanent shift, we move along the LR labor supply curve. Wages go up but people work fewer hours.

Intersection in Two Markets

A Shift in Productivity

Now suppose a new technology favors skilled workers.

Initial Impact on Hours and Wages

If skilled workers adjust their perception they work harder and wages rise.

Second Impact on Hours and Wages

If skilled workers adjust their perception, they move to the LR labor supply curve. As they change their perception, they work harder and wages rise.

Second Impact on Hours and Wages

As they change their perception, they move to the LR labor supply curve. Wages rise even more as hours worked declined.
There is a secondary effect. The demand for unskilled workers decline. Their wage rate declines and they work longer hours.

Compensating Differentials

- Day and Night Differentials.

One study estimates that, in 1984, the average shift differential for night manufacturing work was 30¢ an hour, when the average wage rate in manufacturing was $9.18.

Compensating Differentials

- Day and Night Differentials.
- High Risk versus Low Risk Jobs

There are estimates that workers receive between $20 and $300 more per year for every one in ten thousand increase in the risk of being killed on the job.
Compensating Differentials

- **Day and Night Differentials.**
- **High Risk versus Low Risk Jobs**
  - There are estimates that workers receive between $20 and $300 more per year for every one in ten thousand increase in the risk of being killed on the job.
  - A firm employing 10,000 workers where the expected number of deaths is two per year, could save $200,000 - $3,000,000 per year in wages by cutting the number of fatalities in half.

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