Labor Supply and Demand

Equilibrium

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

Shift in Demand

• Initially, we move along the SR labor supply curve. Wages go up and people work harder.

Shift in Demand

• Then, we move along the LR labor supply curve. People don’t work as hard and wages go up even more.

Intersection in Two Markets

Skilled

Unskilled

Intersection in Two Markets

Skilled

Unskilled
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 $9.16

- **High Risk versus Low Risk Jobs**
Compensating Differentials

• **Day and Night Differentials.**
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  – 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.

Computing Consumer Surplus

- The firms get \( A + B + D + E \)
- The workers get \( C \)

When we allow foreign labor, wages and the number of Americans working declines
The Monopoly

• Suppose we have a monopoly industry.

The Monopoly

• The firm still has a MPP curve.

Since \( MR < P \), MRP < VMP.

The Monopoly

• The monopolist’s demand function is determined by MRP, not VMP.

\[ VMP = MPP \times P \]

\[ MRP = MPP \times MR \]
The Monopsonist

- A monopoly is a sole seller; a monopsonist is a sole buyer.

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- As a monopolist worries about MR, a monopsonist worries about MCF.
Two Issues
• Is this exploitation?
  – In the sense that the workers are not being paid the VMP, it is.

Two Issues
• Is this exploitation?
• Price Discrimination
  – Confidential salaries
  – Moving expenses and hiring bonuses

Two Issues
• Is this exploitation?

End