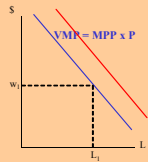
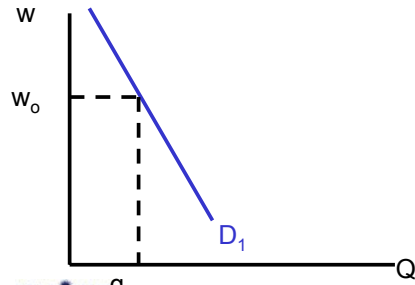


Applying Labor Demand



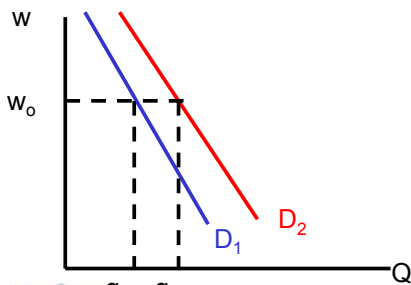
Lectures in Microeconomics-Charles W. Upton

From Firm Demand to Market Demand



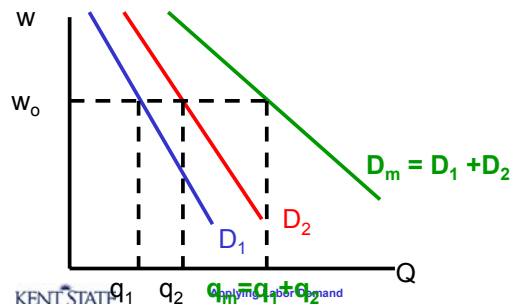
Applying Labor Demand

From Firm Demand to Market Demand



Applying Labor Demand

From Firm Demand to Market Demand



Applying Labor Demand

Applications

- Short Run Labor Demand

Applying Labor Demand

Applications

- Short Run Labor Demand
 - A change in wage rates
 - A change in the price of the product

Applying Labor Demand

Applications

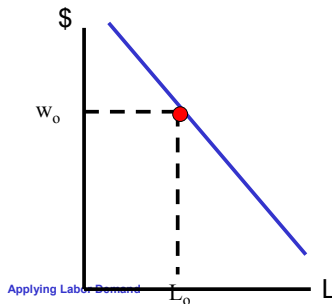
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Applications

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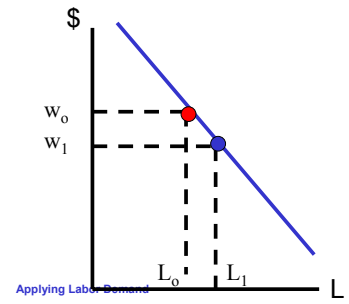
A Change in the Wage Rate- Short Run Labor Demand

- When the wage rate is w_0 , L_0 workers are demanded.



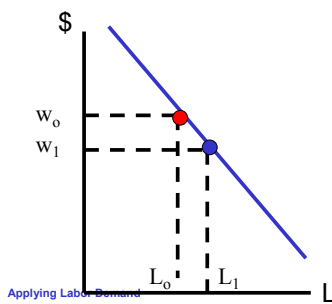
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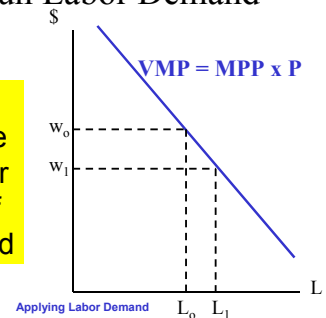
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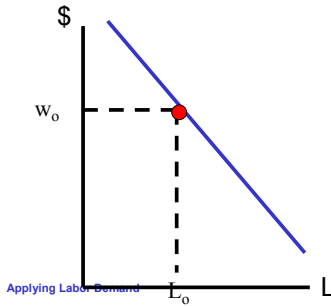
A Change in the Wage Rate- Short Run Labor Demand

- When the wage rate is w_1 , L_1 workers are demanded.
- In short, the lower the wage rate the greater the quantity of labor demanded.



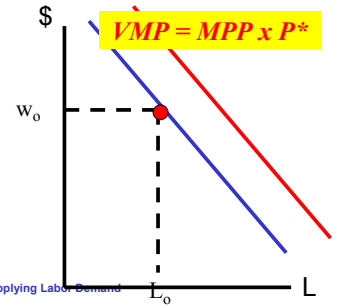
A Change in the Product Price-Short Run Labor Demand

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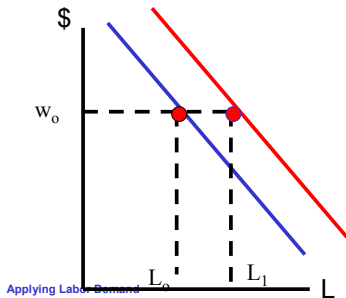
A Change in the Product Price-Short Run Labor Demand

- When the wage rate is w_0 , L_0 workers are demanded.
- If the price rises to P^* , the VMP curve shifts up and to the right



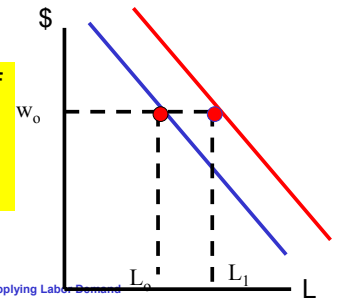
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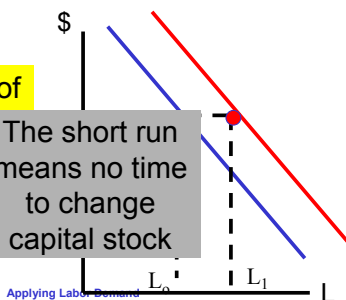
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A fall in the wage rate means increased quantity demand via the substitution effect.

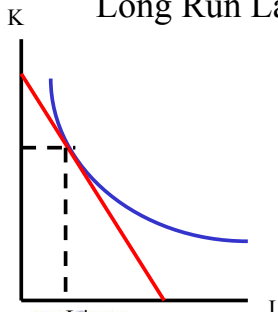
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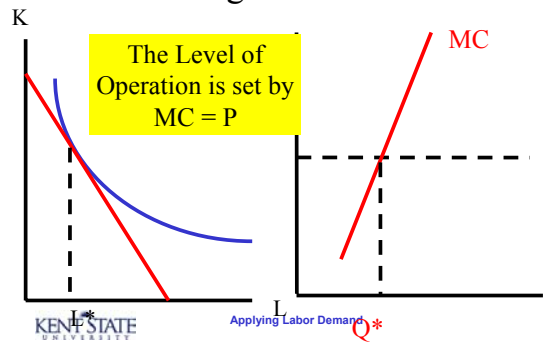
While the scale effect could be negative and theoretically reverse the substitution effect, it is unlikely.

A Change in the Product Price-Long Run Labor Demand



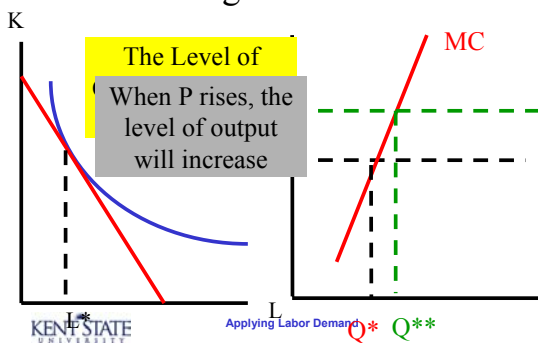
Let's see what happens when in the long run when the price of a product changes. Initially the firm is employing L^* workers.

The Marginal Cost Curve



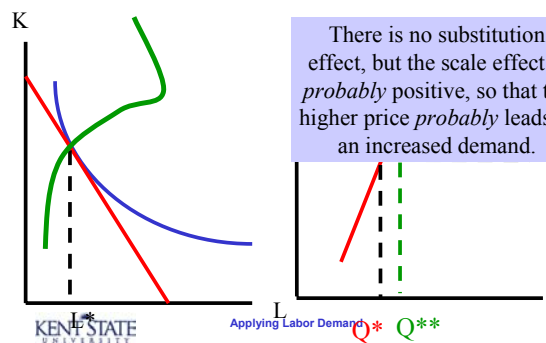
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The Marginal Cost Curve



The Level of Operation is set by $MC = P$. When P rises, the level of output will increase.

Substitution Effect



There is no substitution effect, but the scale effect is *probably* positive, so that the higher price *probably* leads to an increased demand.

End

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