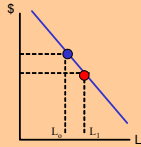


Labor Demand



Why study labor demand and supply?

- Factor markets are important in themselves.

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- Factor markets are important in themselves.
 - We are all interested in labor markets
 - We are particularly interested in one aspect, human capital

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 - We think of many commodities as factors of production.
 - An automobile is not a commodity *per se*, but a factor of production for transportation services.

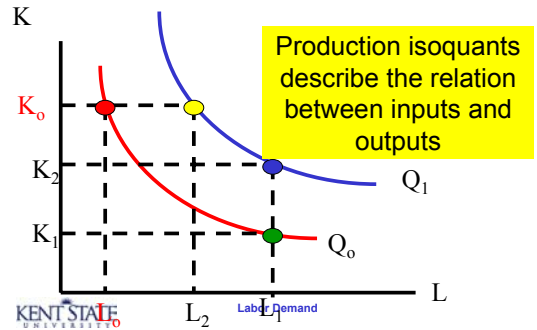
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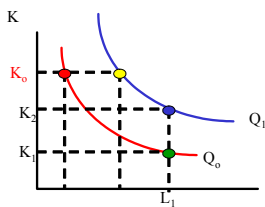
Why study labor demand and supply?

- Factor markets are important in themselves.
- The theory says important things about the markets for particular commodities.
- Firms worry a great deal about this topic.
- Many important political topics turn on an understanding of factor markets.

The Basics of Factor Demand

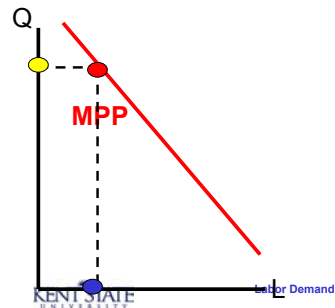


Two Key Propositions

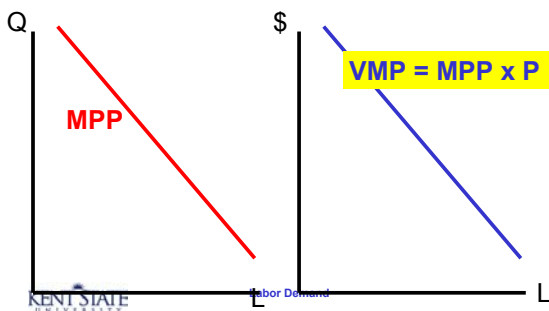


- Labor has a positive marginal product.
- Labor has a diminishing marginal physical product

MPP and VMP Curves

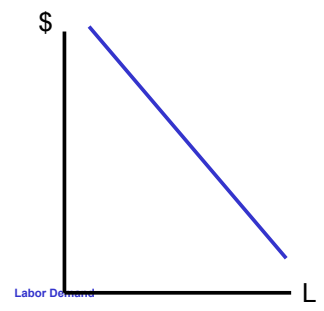


MPP and VMP Curves



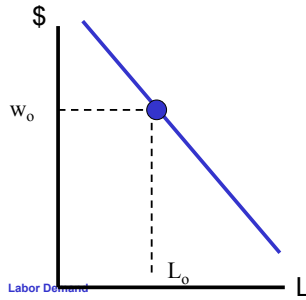
The Short Run Demand For Labor

- The VMP curve is the short run labor demand curve.



The Short Run Demand For Labor

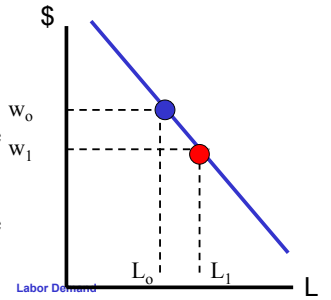
- The VMP curve is the short run labor demand curve.
- When the wage rate is w_0 , L_0 workers are demanded



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The Short Run Demand For Labor

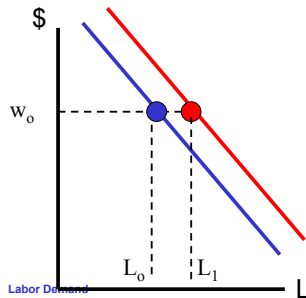
- The VMP curve is the short run labor demand curve.
- When the wage rate is w_0 , L_0 workers are demanded
- When the wage rate is w_1 , L_1 workers are demanded



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Change in Price

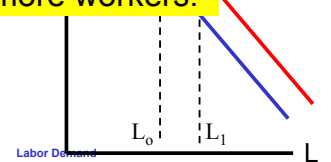
- In the price of the product increases, the VMP curve will shift up and the firm will hire more workers



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Change in Price

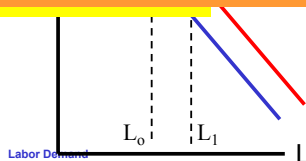
- A fall in wages causes the firm to hire more workers; a rise in prices causes the firm to hire more workers.



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Change in Price

- A fall in wages causes the firm to hire more workers; a rise in prices causes the firm to hire more workers. Caution: this analysis holds K constant



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End

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Labor Demand