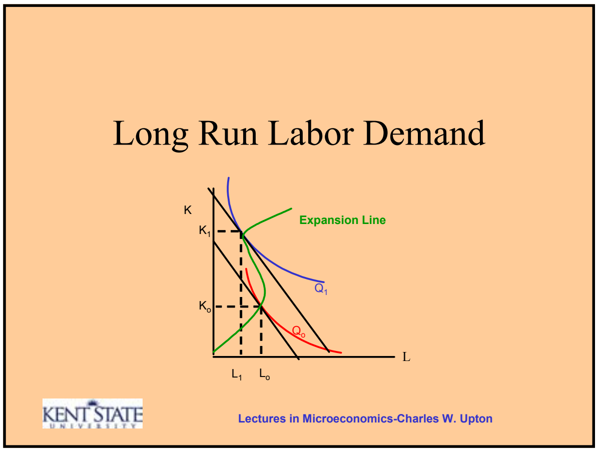
Long Run Labor Demand
K
K1
Ko
Expansion Line
Q1
Qo
L
L1
Lo
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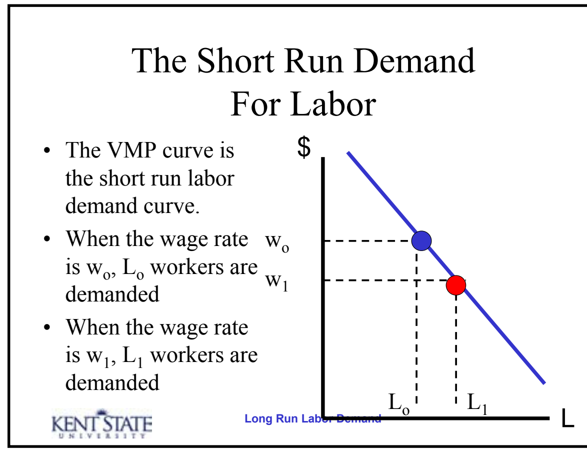
Lectures in Microeconomics-Charles W. Upton


The Short Run Demand For Labor
• The VMP curve is the short run labor demand curve.
• When the wage rate is wo, Lo workers are demanded
• When the wage rate is w1, L1 workers are demanded
$
wo
w1
Lo
L1
L
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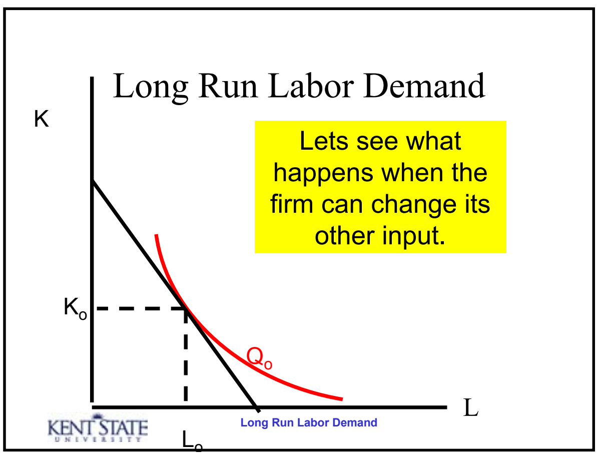
Long Run Labor Demand


Long Run Labor Demand
K
Lets see what happens when the firm can change its other input.
Ko
Qo
L
Lo
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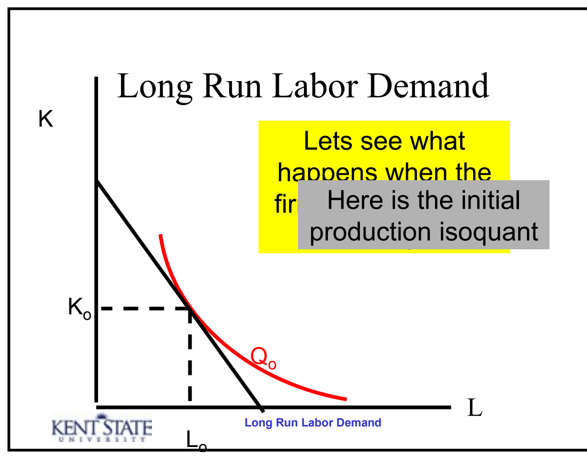
Long Run Labor Demand


Long Run Labor Demand
K
Lets see what happens when the fir
Here is the initial production isoquant
Ko
Qo
L
Lo
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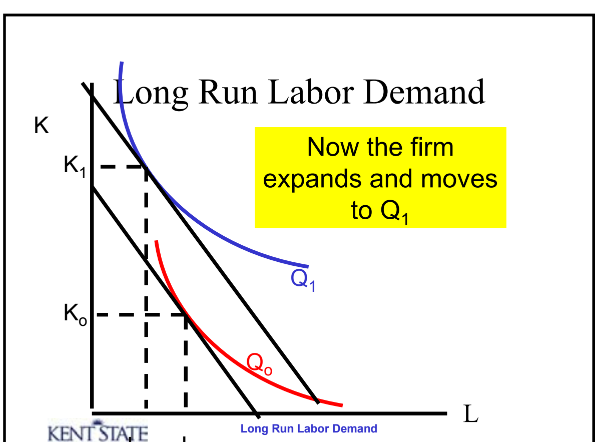
Long Run Labor Demand


Long Run Labor Demand
K
Now the firm expands and moves to Q1
K1
Ko
Q1
Qo
L
L1
Lo
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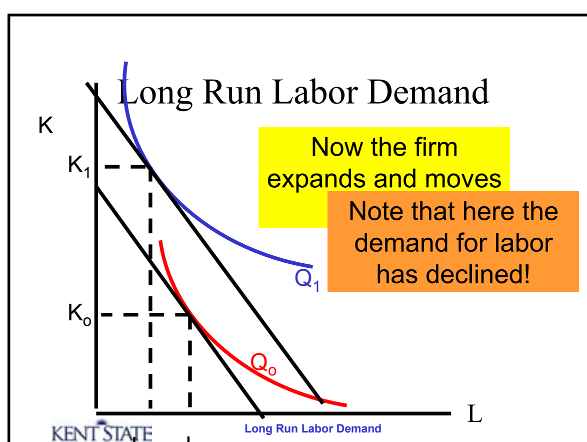
Long Run Labor Demand


Long Run Labor Demand
K
Now the firm expands and moves
Note that here the demand for labor has declined!
K1
Ko
Q1
Qo
L
L1
Lo
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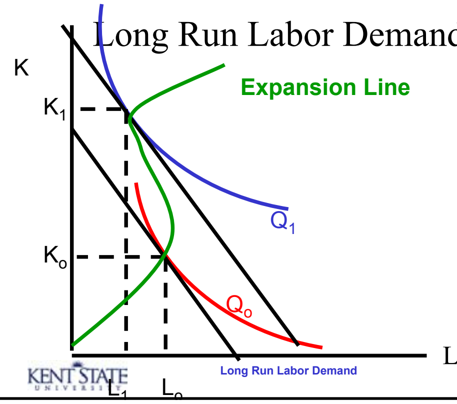
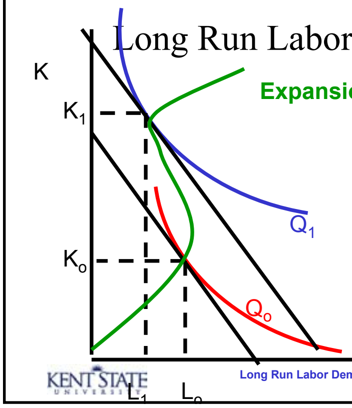
Long Run Labor Demand

Long Run Labor Demand

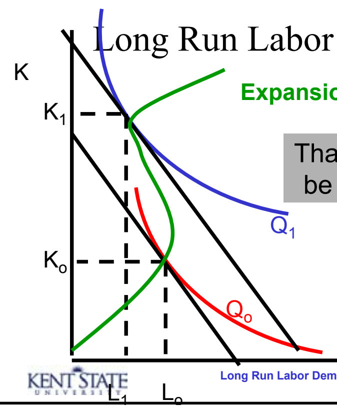


Long Run Labor Demand



We would normally expect an increase in output to lead to a increased demand for both factors.

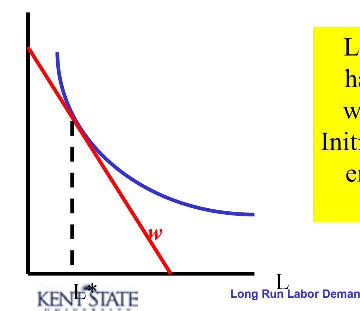
Long Run Labor Demand



That need not be the case.

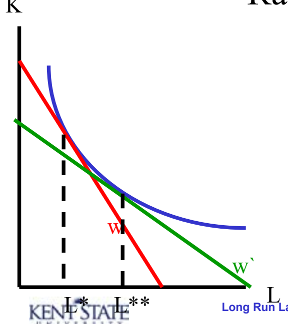
ld y expect an increase in output to lead to a increased demand for both factors.

The Effect of a Change in Wage Rate



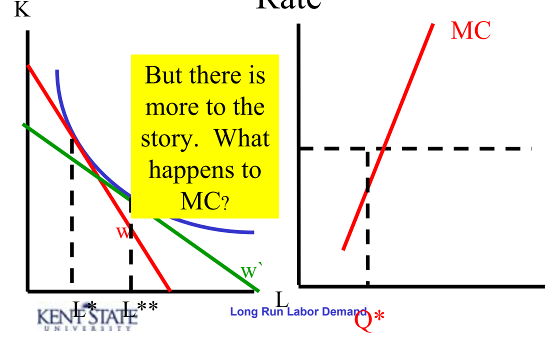
Let's see what happens when wages change. Initially the firm is employing L* workers.

The Effect of a Change in Wage Rate



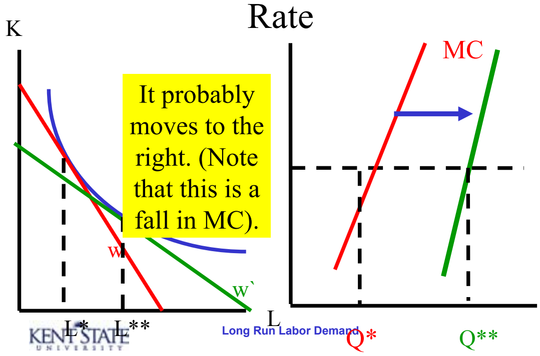
Now, the wage rate falls to w`. If the firm kept producing the same amount of output, we would substitute labor for capital.

The Effect of a Change in Wage Rate

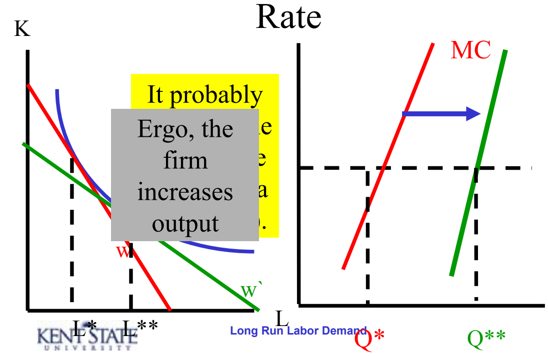


But there is more to the story. What happens to MC?

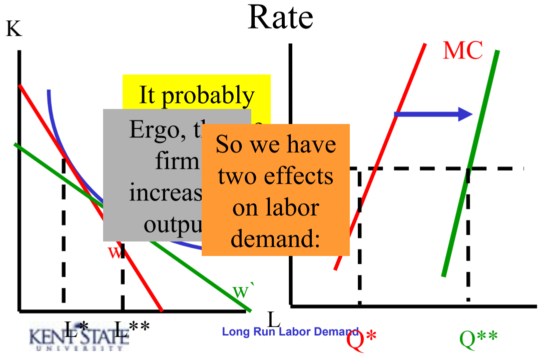
The Effect of a Change in Wage Rate



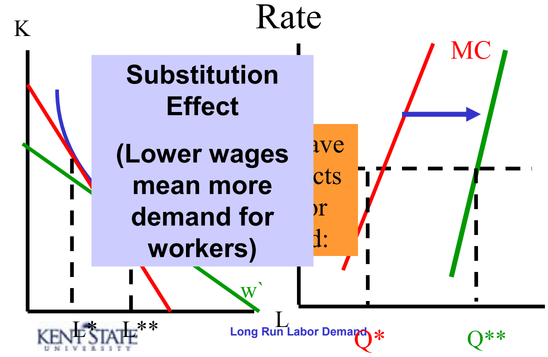
The Effect of a Change in Wage Rate



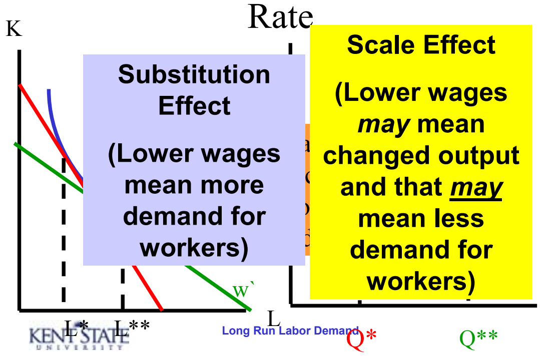
The Effect of a Change in Wage Rate



The Effect of a Change in Wage Rate



The Effect of a Change in Wage Rate



The Two Effects

Change in Quantity of Labor Demanded
= Substitution Effect + Scale Effect

The Two Effects

Change in Quantity of Labor Demanded

Scale

In general, we expect the substitution effect will dominate even if the scale effect is negative.

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End

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