MODULE 12
LABOR MARKETS

Definition: The labor market, also known as the job market, refers to the supply and demand for labor, in which employees provide the supply and employers provide the demand. It is a major component of any economy and it is linked to markets for capital, goods, and services.

The labor market, like all markets, has a demand and a supply. Why do firms demand labor? Why is an employer willing to pay you for your work? It's not because the employer likes you or is socially conscious. Rather, it's because your labor is worth something to the employer—your work brings revenues to the firm. How much is an employer willing to pay? That depends on the skills and experience you bring to the firm.

If a firm wants to maximize profits, it will never pay more (in terms of salary) for a worker than the value of his or her marginal productivity to the firm. We call this the first rule of labor markets.

There Four Categories of Labor:

1) Professional Labor
2) Semi-Skilled Labor
3) Unskilled Labor
4) Skilled Labor

Professional labor is considered work done by an individual who is trained and engaged in such work for a career.

Semi-Skilled labor does not require advanced training or specialized skills, but it requires more skills than an unskilled labor job. People who perform semi-skilled labor usually have more than a high-school diploma, but less than a college degree.

Unskilled labor is used to refer to a segment of the workforce associated with a limited skill set or minimal economic value for the work performed. Unskilled labor is generally characterized by a lower educational level, such as a high school diploma and typically results in smaller wages.

Skilled labor refers to labor that requires workers who have specialized training to perform the work. These workers can have varied levels of training or education.

In the labor market, employers often hold most of the power in determining wages. This could especially happen if the firm has little or no competition in hiring employees, so workers have little alternative to accepting the wages that are offered. This is call a **monopsony**, which results in a lower level of employment.

There are two sources of imperfect competition in labor markets:

1) **Demand side sources -** labor market power by employers.
2) **Supply side sources** - labor market power by employees.

A competitive labor market is one where there are many potential employers for a given type of worker, say a secretary or an accountant. Suppose there is only one employer in a labor market. Because that employer has no direct competition in hiring, if they offer lower wages than would exist in a competitive market, employees will have few options. If they want a job, they must accept the offered wage rate.

Since the employer is exploiting its market power, we call the firm a monopsony. The classical example of monopsony is the sole coal company in a West Virginia town. If coal miners want to work, they must accept what the coal company is paying.
This is not the only example of monopsony.

Think about surgical nurses in a town with only one hospital. Employers that have at least some market power over potential employees is not unusual. After all, most firms have many employees while there is only one employer.

A labor union is an organization of workers that negotiates with employers over wages and working conditions. A labor union seeks to change the balance of power between employers and workers by requiring employers to deal with workers collectively, rather than as individuals. As such, a labor union operates like a monopoly in a labor market. We sometimes call negotiations between unions and firms **collective bargaining**.

The subject of labor unions can be controversial. Supporters of labor unions view them as the workers' primary line of defense against efforts by profit-seeking firms to hold down wages and benefits. Critics of labor unions view them as having a tendency to grab as much as they can in the short term, even if it means injuring workers in the long run by driving firms into bankruptcy or by blocking the new technologies and production methods that lead to economic growth.

Discrimination in labor markets

Discrimination occurs in a labor market when employers pay workers with the same economic characteristics, such as education, experience, and skill, are paid different amounts because of race, gender, religion, age, or disability status. In the United States, female workers on average earn less than male workers, and black workers on average earn less than white workers.

Free markets can allow discrimination to occur, but the threat of a loss of sales or a loss of productive workers can also create incentives for a firm not to discriminate.

A range of public policies can be used to reduce earnings gaps between men and women or between white and other racial / ethnic groups, for example, requirement the equal pay for equal work.