Lecture 2. labor supply

Definition

The supply of labour is defined as the amount of labour, measured in person-hours, offered for hire during a given time-period. Taking population as given, the quantity of labour supplied depends on two main factors.

What determines labor supply?

The main determinant of labor supply is the wage rate. At the lower portion of the supply curve, people are willing to supply more labor hours when wage increases. However, labor supply curve will bend backwards at the higher wage rate, indicating a negative relationship between wage rate and labor supply quantity.

What is labor supply macroeconomics?

The labour supply is the number of hours people are willing and able to supply at a given wage rate. Short revision video on labour supply. It is the number of workers willing and able to work in a particular job or industry for a given wage.

Why is labour supply important?

Labour supply is one of the most important determinants of project cost and schedule. Too often Project Teams do not understand how decisions they make impact labour supply and therefore impact construction costs and schedule factors.

How does labor supply affect the economy?

The quantity and quality of labor that individuals supply is an important factor in determining the economy's level of production and rate of growth. People with jobs, people looking for jobs and businesses seeking employees make up what is known as the labor market.

What is labour supply analysis?

Conducting a supply analysis involves understanding the current workforce and how it is projected to change over time, due to attrition and other trends.

How does labor supply increase?

The economy can produce more goods and services by growing the number of people in the paid labor force, by increasing the number of hours worked by employees, or by increasing the output per hour worked, that is, increasing the productivity of labor.

Why is labor supply low?

The pandemic caused a major disruption in America's labor force—something many have referred to as The Great Resignation. In 2021, more than 47 million workers quit their jobs, many of whom were in search of an improved work-life balance and flexibility, increased compensation, and a strong company culture.

What can affect labor supply?

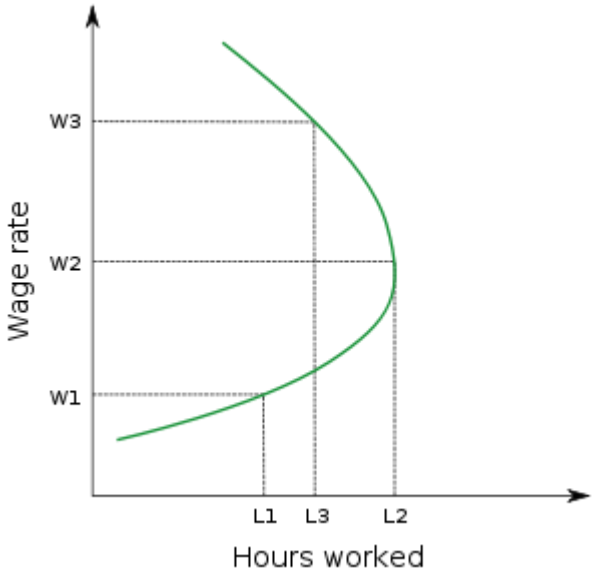
The supply of labor shifts when there are changes in the population, changes in preferences and social norms, and changes in wage rates and opportunities in other markets.

How does labor supply affect inflation?

Since wages and salaries are a major input cost for companies, rising wages should lead to higher prices for products and services in an economy, ultimately pushing the overall inflation rate higher.

Labour Supply in Microeconomics

In mainstream economic theories, the labour supply is the total hours (adjusted for intensity of effort) that workers wish to work at a given real wage rate. It is frequently represented graphically by a labour supply curve, which shows hypothetical wage rates plotted vertically and the amount of labour that an individual or group of individuals is willing to supply at that wage rate plotted horizontally. There are three distinct aspects to labor supply or expected hours of work: the fraction of the population who are employed, the average number of hours worked by those that are employed, and the average number of hours worked in the population as a whole.



Neoclassical view

This backward bending supply curve of labour shows how the change in real wage rates affects the number of hours worked by employees.

Labour supply curves derive from the 'labour-leisure' trade-off. More hours worked earn higher incomes, but necessitate a cut in the amount of leisure that workers enjoy. Consequently, there are two effects on the amount of labour supplied due to a change in the real wage rate. As, for example, the real wage rate rises, the opportunity cost of leisure increases. This tends to make workers supply more labour (the "substitution effect"). However, also as the real wage rate rises, workers earn a higher income for a given number of hours. If leisure is a normal good—the demand for it increases as income increases—this increase in income tends to make workers supply less labour so they can "spend" the higher income on leisure (the "income effect"). If the substitution effect is stronger than the income effect, then the labour supply slopes upward. If, beyond a certain wage rate, the income effect is stronger than the substitution effect, then the labour supply curve bends backward. Individual labor supply curves can be aggregated to derive the total labour supply of an economy.

Marxist view

From a Marxist perspective, a labour supply is a core requirement in a capitalist society. To avoid labour shortage and ensure a labour supply, a large portion of the population must not possess sources of self-provisioning, which would let them be independent—and they must instead, to survive, be compelled to sell their labour for a subsistence wage. In the pre-industrial economies wage labour was generally undertaken only by those with little or no land of their own.