Lecture 3. labor Demand

Definition

Labour demand is defined as the amount of labour that employers seek to hire during a given time period at a particular wage rate. The demand for labour as a factor of production is a derived demand, in that labour is demanded not for its own sake but for its contribution to the production of goods and services.

In economics, the labor demand of an employer is the number of labor-hours that the employer is willing to hire based on the various exogenous variables it is faced with, such as the wage rate, the unit cost of capital, the market-determined selling price of its output, etc.

What determines labor demand?

The demand for labour is a derived demand, which means it is ultimately based on demand for the product that labour makes. If consumers want more of a particular good or service, more firms will want the workers that make the product.

What is an example of labor demand?

The demand for labor is derived from – or determined by – the demand for goods and services produced. For example, the demand for nurses is determined by the demand for healthcare services. If the demand for healthcare services increased dramatically, the demand for nurses to provide those services would increase.

What are the factors affecting the demand for labour?

The demand for labour is influenced by the level of economic activity, the productivity of labour and the relative cost of labour when compared to capital inputs. Unlike other markets, the labour market is a little different. Firms demand in the labour market, whilst consumer supply the labour market.

What is labor demand based on?

The firm's demand for labor is a derived demand; it is derived from the demand for the firm's output. If demand for the firm's output increases, the firm will demand more labor and will hire more workers. If demand for the firm's output falls, the firm will demand less labor and will reduce its work force.

Why is labor demand important?

Employers demand labor because workers are an important part of the production process. Workers use tools and equipment to turn inputs into output. Without workers, employers couldn't produce goods and services and earn profits.

What are the 3 determinants of labor demand?

The factors that affect the demand for labour are:

- labor productivity
- changes in technology
- changes in the number of firms

Demand for Labor in Perfectly Competitive Output Markets

The question for any firm is how much labor to hire. We can define a perfectly competitive labor market as one where firms can hire all the labor they wish at the going market wage. Think about secretaries in a large city. Employers who need secretaries can probably hire as many as they need if they pay the going wage rate.

Demand for Labor in Imperfectly Competitive Output Markets

If an employer does not sell its output in a perfectly competitive industry, it faces a downward sloping demand curve for output. This means that in order to sell additional output the firm must lower its price. This is true if the firm is a

monopoly, but it's also true if the firm is an oligopoly or monopolistically competitive. In this situation, the value of an additional unit of output sold is the marginal revenue, rather than the price. This means that a worker's marginal product is valued by the marginal revenue, not the price. Thus, the demand for labor is the marginal product times the marginal revenue, which we call the marginal revenue product.

What is meant by demand for labor?

The demand for labor is an economics principle derived from the demand for a firm's output. That is, if demand for a firm's output increases, the firm will demand more labor, thus hiring more staff.

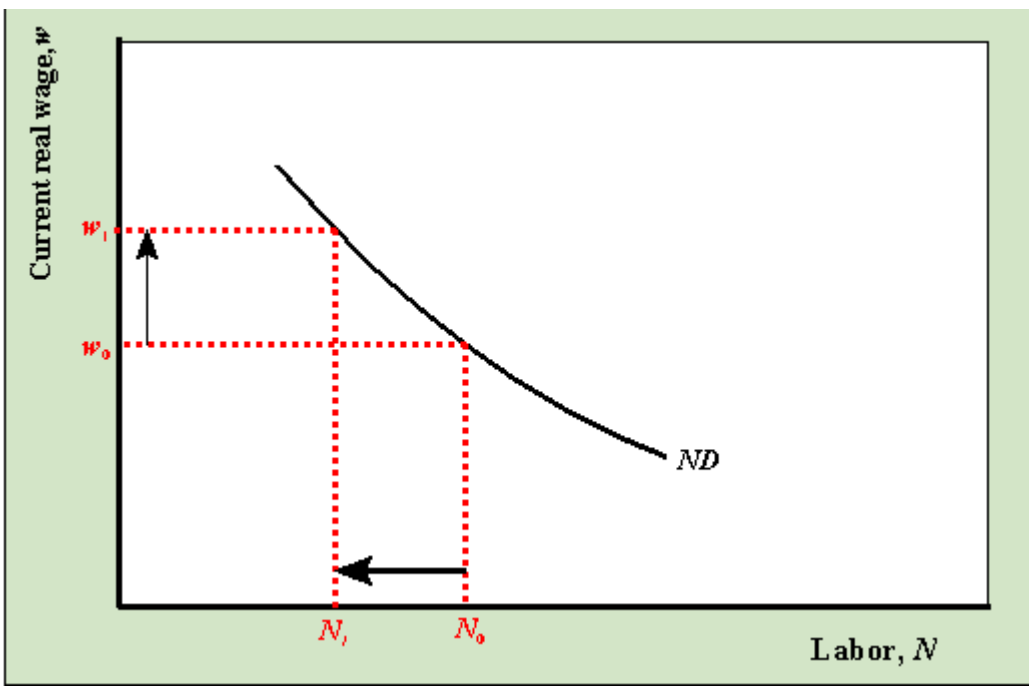
What is an example of the demand for labour?

The demand for labour, and other factors of production, is derived from the demand for the products these factors make. For example, if mobile phones are in greater demand, then the demand for workers in the mobile phone industry will increase, ceteris paribus.

The Labor Demand Curve

The labor demand curve for a firm is a downward sloping function of the real wage. As the real wage increases workers become more expensive to firms and they demand less labor.

The shape of the labor demand curve, ND, is identical to the MPN curve which is derived as the slope of the production function. Therefore, any factor that shifts the production function will also shift the ND curve.



*ND - Labor Demand Curve

*MPN - Marginal product of labor