1. Is the labour market like any other market?

No. Why not?

2. The demand for labour is a derived demand.

- Employees are only demanded because of the demand for goods and services. The demand for labour is, therefore, derived from the demand on the goods market.
- The demand for labour by a firm is thus dependent on the output produced by an additional employee times marginal revenue (for this output).
  \[
  MRP = MP \times MR
  \]
  (in perfect competition: MR = Price)

  [Marginal revenue product = Marginal product * Marginal revenue]
- MP and MRP are downward-sloping because of the law of diminishing returns.
- The demand curve for labour by an individual firm (price-taker):

- If, for example, the demand for goods and services rises, MR rises and the demand for labour rises, too.
3 The supply of labour by an **individual** is special, too

- Both work and leisure are alternatives. Working allows people to buy goods and services. The alternative, leisure, is a good, too.
- At high or very high wages, more leisure and less work can be chosen.
- Thus, an individual's supply curve can look like this:

![Diagram showing labour supply curve with income effect and substitution effect]

Income effect
> Substitution effect
Income effect
< Substitution effect