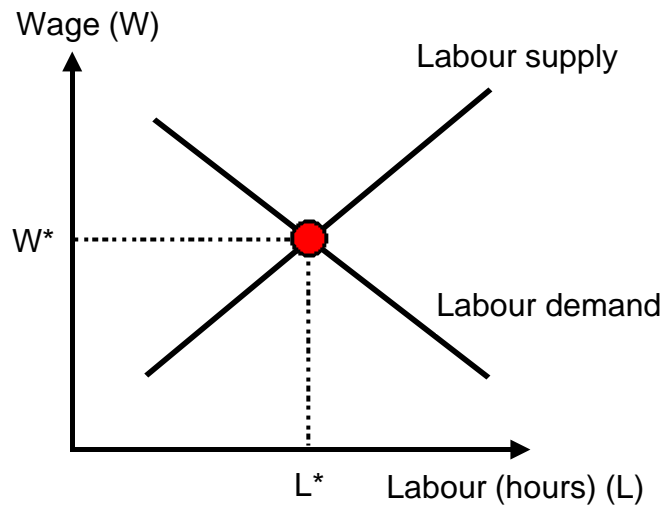


Labour Market

1 Is the labour market like any other market?



No. Why not?

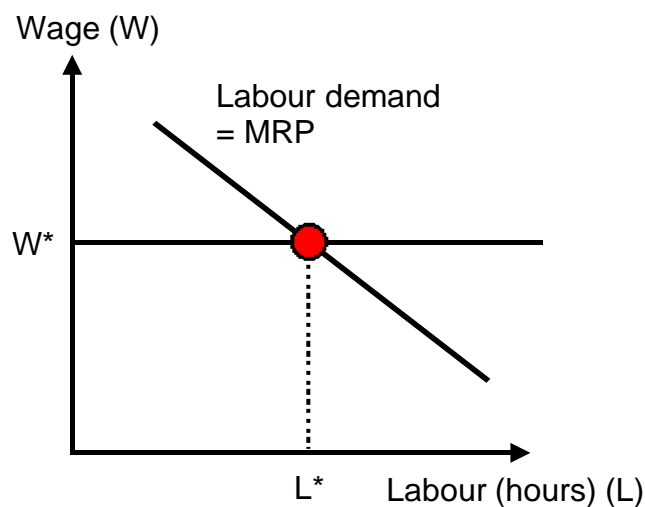
2 The demand for labour is a **derived** demand.

- 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).

$$\boxed{\text{MRP} = \text{MP} * \text{MR}} \text{ (in perfect competition: } \text{MR} = \text{Price)}$$

[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:

