

3.5.1 Demand for labour

a) Factors that influence the demand for labour

b) Demand for labour as a derived demand

- Labour demand: the amount that employers are willing to hire at each price level
- Factors that influence the demand for labour:
 - Higher levels of **productivity** reduce unit labour costs so firms can afford to hire more workers
 - Anything which reduces **unit labour costs** increases demand for labour
- Demand for labour is driven by the demand for the goods that this labour would provide. Firms will only demand labour if it can make a profit.
- The marginal productivity theory says that the demand for any factor of production depends on its marginal revenue product which is the extra revenue gained by a firm from employing one more worker
- $MRP = \text{marginal physical product of labour} \times MR$
- Demand for Labour depends on the MRP. MPP depends on the productivity and MR depends on the price.
- The equilibrium wage occurs when $MRP = MC$