

### 3.5.3 Wage determination in competitive and non-competitive markets

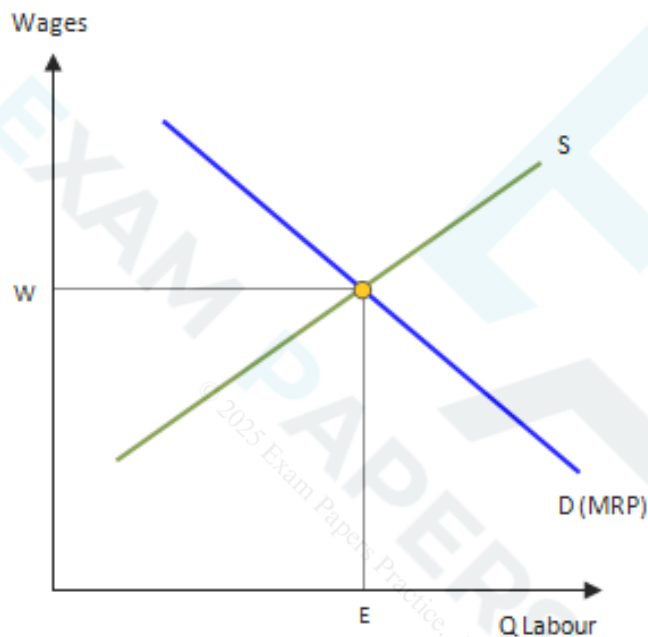
a) Diagrammatic analysis of labour market equilibrium

b) Understanding of current labour market issues

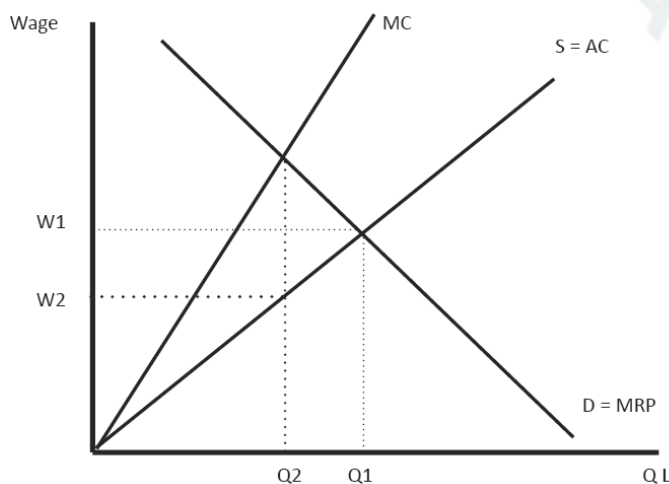
c) Government intervention in the labour market:

- maximum and minimum wages
- public sector wage setting
- policies to tackle labour market immobility

d) The significance of the elasticity of demand for labour and the elasticity of supply of labour



- Reasons for wage differentials:
  - Workers skill level
  - Locations/industries
  - Trade unions
- In a perfectly competitive labour market, firms are price takers



- Monopsony labour market:
  - There is a single employer

- A monopsony can pay a wage below a worker's MRP because they can drive down the level of employment
- Firm's will hire at the point where they maximise their profits which is where  $MRP=MC$

Current labour market issues:

- Wage differentials: when workers, sometimes in the same job, are paid different amounts. Caused by differences in education and skills, gender and other types of discrimination
- Impact of immigration: there could be an increase in competition for jobs and an increase in labour supply reduces wages. Migrants can bring high quality skills which improves productivity.
- Hysteresis is a type of structural unemployment, when somebody has been out of work for a long time, so their skills deteriorate

Types of government intervention:

- Minimum and maximum wages
- Public sector wage setting: when the government caps the pay of public sector workers
- Policies to tackle labour market immobility: deregulation; welfare payments and taxes to increase the incentives to work; improving skills through training; improving infrastructure; making housing more affordable

Advantages of a minimum wage:

- Ensures a more equal pay distribution
- Encourages firms to up-skill their workers
- Improves incentives to look for paid work
- Extra tax revenue for governments

Disadvantages of a minimum wage:

- Might cause higher unemployment
- Higher costs of production for firms which will reduce international competitiveness
- May encourage illegal employment

If demand for labour is more inelastic, strikes will be more effective because an increase in wages has a smaller effect on demand for labour

If supply is more elastic, there will be a bigger change on employment than wages of a change in demand

Factors affecting PED of labour:

- Labour costs as a proportion of total costs
- How easy it is to switch labour with capital
- PED of goods and services. More inelastic PED for products means producers can accept higher labour costs so labour is inelastic

Factors affecting PES of labour:

- Length of training period
- Skills of the labour force: elastic for low-skilled workers because there is a larger pool of labour
- Time period
- Mobility of labour