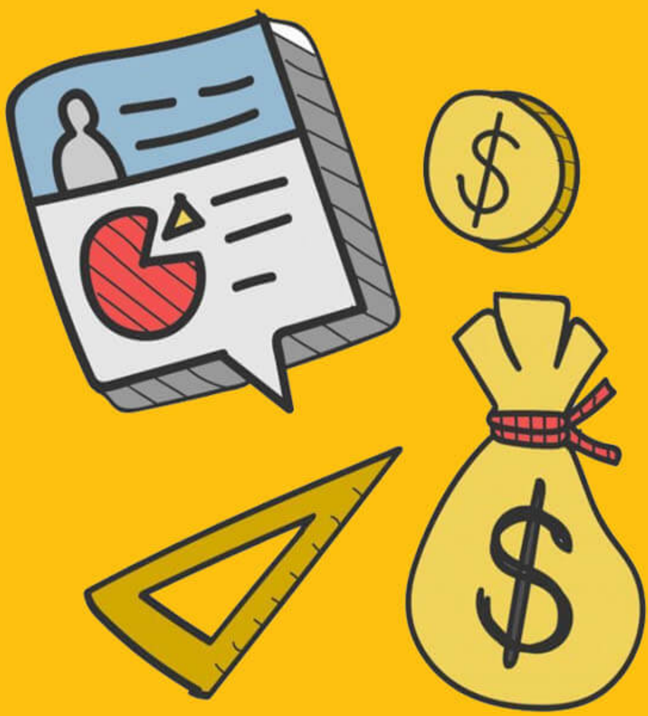
Exam Papers Practice

The Determination of Relative Wage Rates and Levels of Employment in Imperfectly Competitive Labour Markets



AQA AS Level Economics Revision Notes

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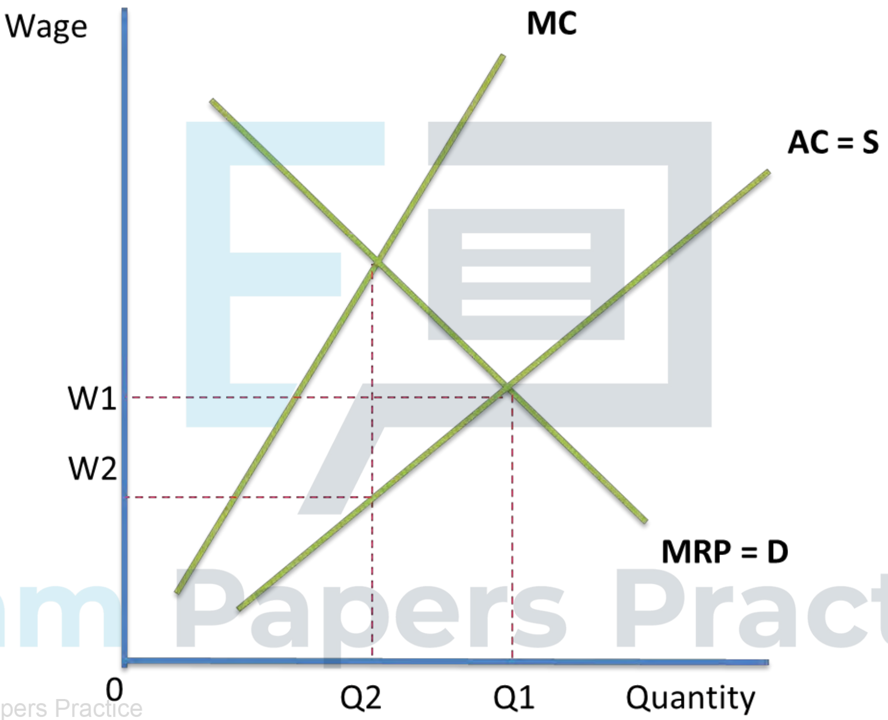
How various factors, such as monopsony power, trade unions and imperfect information contribute to imperfections in a labour market

Monopsony power: When there is only one buyer of labour in the market, there is said to be monopsony power. It means the firm has the ability to set wages.



The marginal cost of adding an extra worker is more than the average cost. This is because in order to employ another employee the firm has to pay all of their workers more.

At MC = MRP, the firm profit maximises. This means they employ Q2 workers. This makes the wage W2, lower than the market equilibrium competitive wage. The employment rate and the wage rate are below those that would exist in a perfectly competitive labour market.

Trade union power: If trade unions are pushing for higher wages above the market equlibrium, the labour market is likely to be more flexible. Trade unions can also increase job security. Higher wages can be demanded by limiting the supply of labour, by closing firms, or by threatening strike action. Higher wages could cause unemployment, however. Trade unions can counter-balance exploitative monopsony power.

Imperfect information: Some qualified workers might not be aware of higher paying jobs in other industries or with other firms. Some workers might not understand the long term benefits of investing in improving their skills and education. This can limit the productivity and potential progression of workers. It makes the market inefficient.