

CHAPTER 15 : The demand for labour

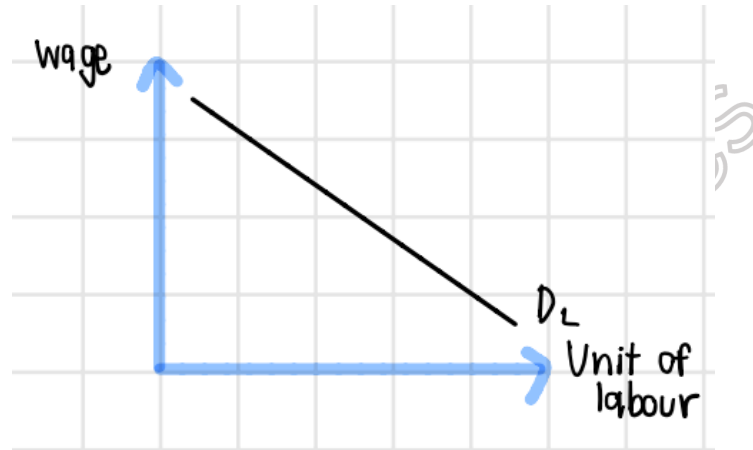
Key terms

1. Derived demand : demand for labour is derived from the demand for the product
2. Elasticity of demand for labour : the responsiveness of quantity demand of labour to changes in the price of labour
3. Marginal physical product (MPP) : the physical addition to output of an extra unit of variable factor of production
4. Marginal revenue product (MRP) : the value of the physical addition to output of an extra unit of a variable factor of production. In a perfectly competitive product market, where marginal revenue equals price, it is equal to marginal physical product times the price of the good produced
5. Total physical product (TPP): the total output of a given quantity of factors of production
6. Unit Labour cost : cost of employing labour per unit of output or production

1. The demand for labour

: amount of workers that firm would like to employ at the given wage

Diagram



- Wage and unit of labour are negative relationship
- Higher wage brings to lower demand for labour while lower wage brings to higher demand for labour

2. Factors affecting Demand for labour to shift

- 2.1 Demand for product
- 2.2 Productivity of labour
- 2.3 Substitute of labour
- 2.4 Other employment cost
- 2.5 How profitable the firm is
- 2.6 Number of firm in the market
- 2.7 Marginal revenue product of labour
- 2.8 Price of product

3. The elasticity of demand for labour

: the responsiveness of quantity demand to a change in wage

$$\text{The elasticity demand for labour} = \frac{\% \text{ change in quantity demand for labour}}{\% \text{ change in wage}}$$

4. Factors that determine elasticity of demand for labour

4.1 The proportion of wage bills in total cost

: small wage when comparing with total cost, Firm will not sensitive to price

: As a result, demand for labour will be inelastic

4.2 The available of substitute for labour

: If increase in wage, firm can easier switch to employ substitute in the production

: Demand for labour will be relatively elastic

4.3 PED of products

: when demand for product is price elastic, Demand for labour will be relatively