CHAPTER 17 :The determination of wage rates in competitive and non-competitive markets

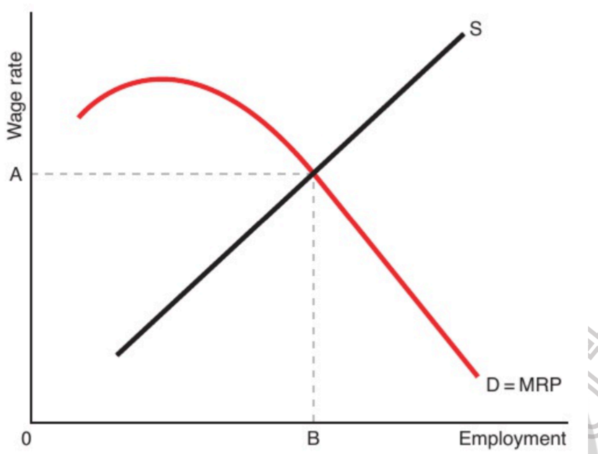
Key terms

1. Bilateral monopoly : when a single buyers faces a single seller in a market; in the labour market, this is most likely to occur when government is the single buyer of the type of labour and the workforce is unionised, so tat the trade union acts as a single seller
2. Net benefits : as well as the wage rate, the supply of labour is influenced by non-monetary benefits or drawbacks, such as changes in working conditions, job security, holiday entitlement or promotion prospects

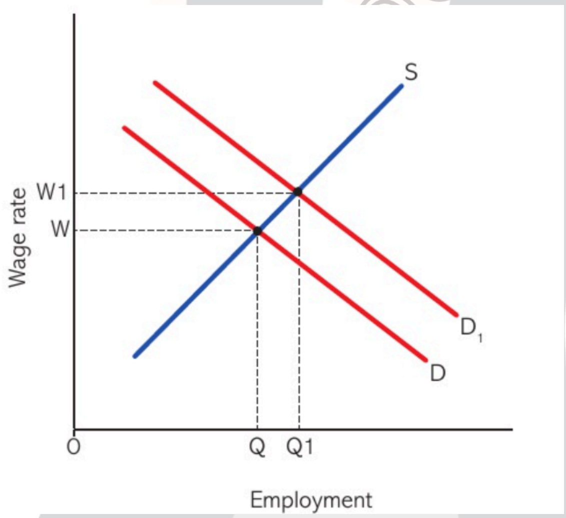
1. Characteristics of perfect competition in labour market

- There are many potential workers and employers
- Labour is homogenous
- There is perfect information
- Firms are wage taker
- There are no barrier to entry and exit

Diagram

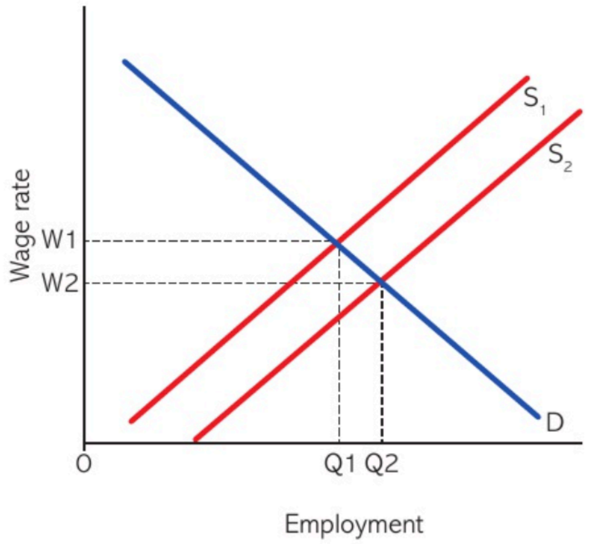


1.1 If there is higher demand for car



- Higher labour is derived by demand for product
-When demand for car increases, Firms employ more engineer to produce more cars
-Demand for engineer increases and shifts demand to the right
-New Equilibrium, wage increases to W1 and Employment increases to Q1

1.2 If there is higher labour immigration



- When there is higher immigration, supply of labour in the market increases
- Supply of labour shifts right from S1 to S2
- New Equilibrium, Wage will be lower and higher employment from Q1 to Q2

2. Why wage rates differ

- Age
- Education, training and work experience
- Ability to perform task - including how hard they are prepared to work, their strength and skill or intelligence

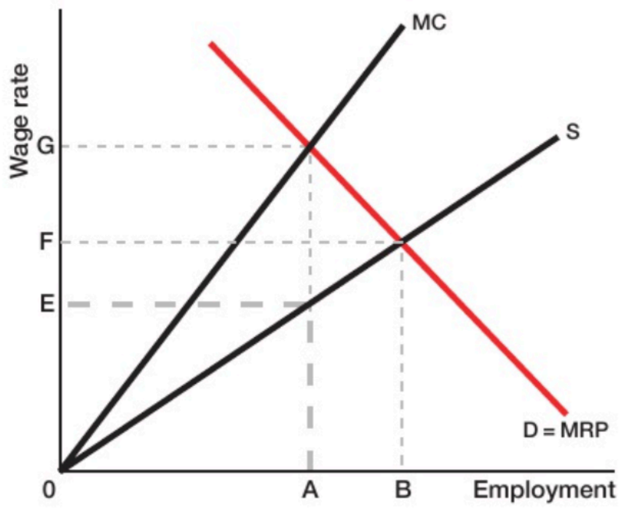
3. Non- competitive labour markets

A non-competitive labour market is one where

- Firm is dominant or monopoly buyer of labour and is therefore a monopolist, which is often the public sector or state-owned enterprise
- The firm is faced with a monopoly suppliers of labour, which is most likely to be a trade union
- A firm is a monopoly buyer of labour and is faced with a monopoly supplier of labour

4. Monopsony in labour market

Diagram



: This occurs when there is just one buyer of labour market, or if firm has substantial market power in employing workers

: The marginal cost of employing one more labour will be higher that average cost, as to employ one more labour, firm has to increase wages for all workers

: Therefore MC is steeper than AC

: To maximise level of profit, MC=MRP

: Therefore, in a monopsony, the firm only has to pay W2. This is less Thant competitive wage of W1

: The monopsony also employees fewer workers than a competitive market