CHAPTER 15

Labor and Wages

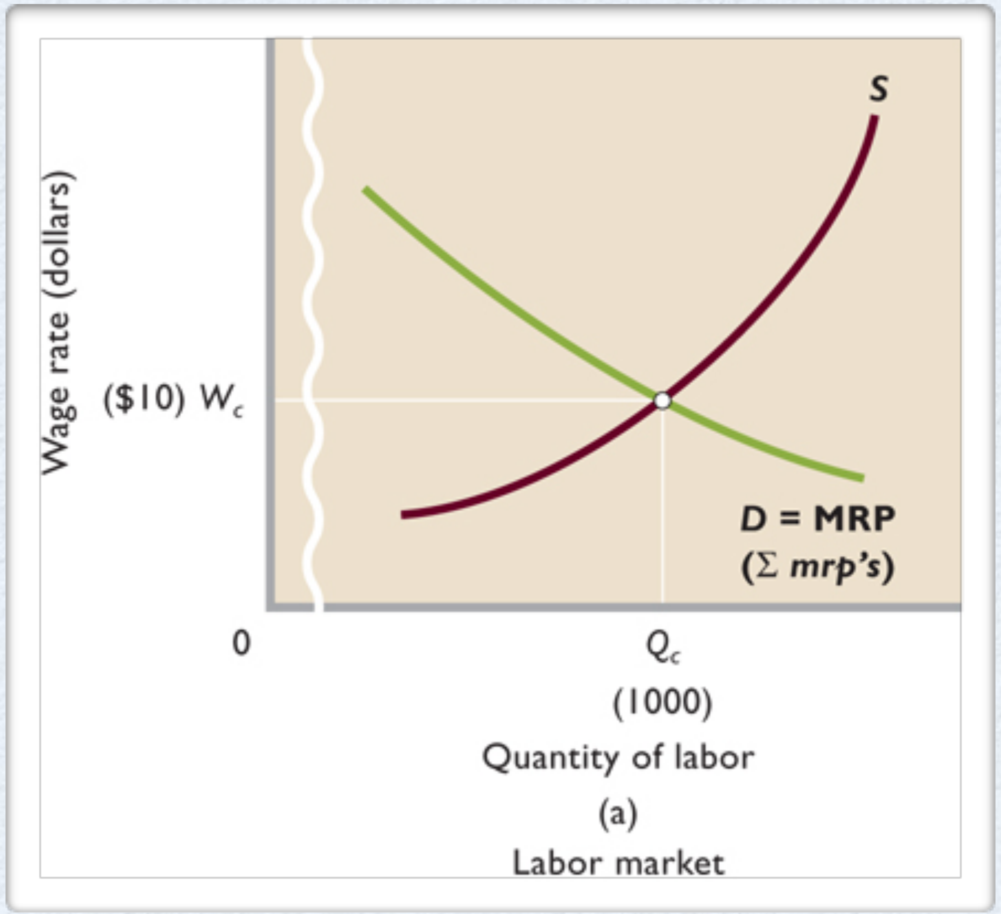
- **Labor**
  1. Blue and white collar workers
  2. Professionals
  3. Owners of small businesses
- **Nominal wage vs real wage**
  - **Nominal** - $/hour
  - **Real** - the quantity of goods and services a worker can obtain

Labor and Wages

- **Productivity** - the greater the productivity of a worker, the greater the demand for it.
- *If supply is fixed*, the stronger the demand for labor, the higher the average level of wages.
- Over long periods, productivity and real wages tend to rise together

Purely Competitive Labor Market

- **The market demand for labor** is the horizontal summation of the individual demand curves for labor
- **The market supply curve** is upward sloping, indicating that employers as a group must pay higher wage rates to obtain more workers
- **Labor market equilibrium - long-run**



MRP = MRC

Monopsony Model

- **Characteristics**
  1. Only a single buyer of labor
  2. Labor is relatively immobile
  3. The firm is a wage maker
- Supply: market and individual supply curves are the same. Upward sloping - wages have to rise to get more labor.
- MRC will be above supply curve. To pay a higher wage to attract one more additional worker, all others have to be matched

MRP = MRC but the wage rate is only Wm.

The monopsonist can attract exactly the number of workers it wants Qm at Wm