

OCR Economics A-level **Microeconomics**

Topic 5: Labour Market


5.2 Supply of labour


Notes

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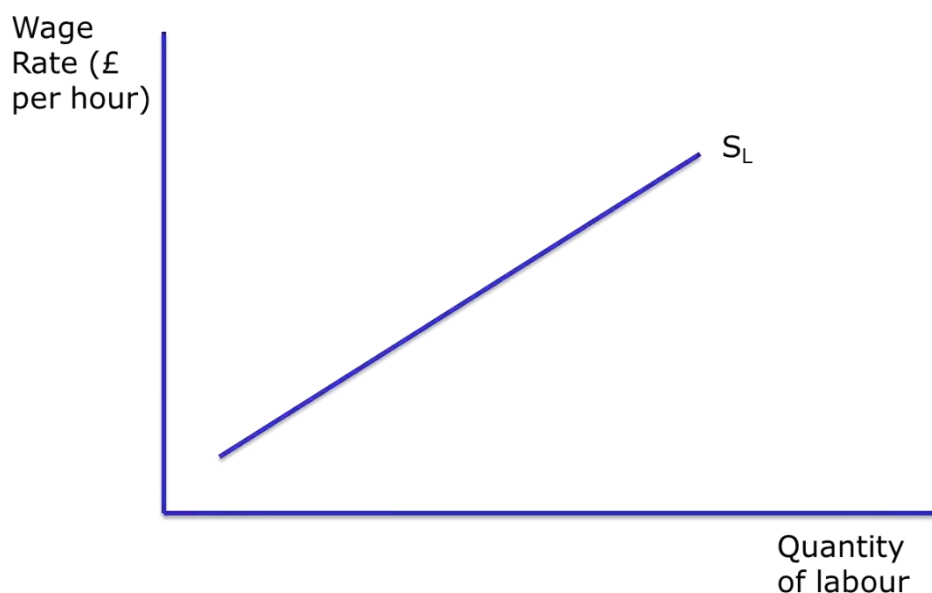
Supply of labour:

 The supply of labour is calculated by the number of workers willing and able to work at the current wage rate, multiplied by the number of hours they can work.

 The supply of labour is affected by:

The wage rate:

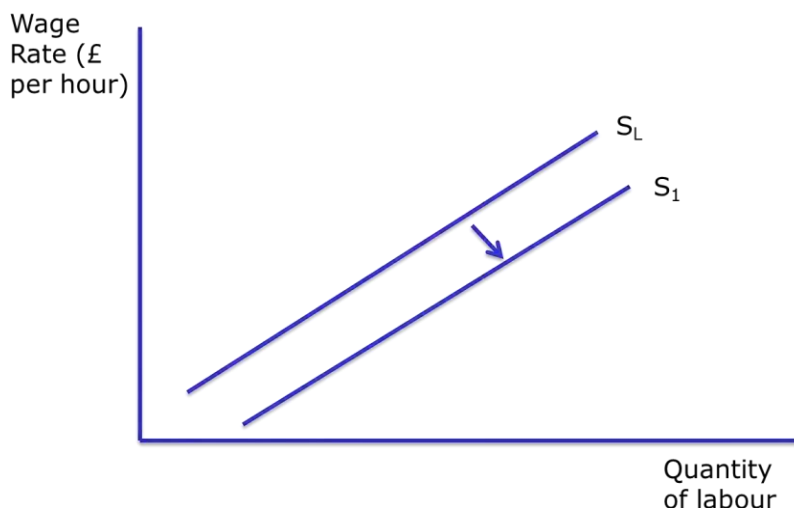
- The upward sloping supply curve shows the proportional relationship between how much the worker is paid and the number of workers willing and able to work.



Demographics of the population:

- The more people there who are able and willing to work, the higher the supply of labour. This changes with retirement and school leaving ages, the number of university students and immigration.
- It can be illustrated with a shift to the right of the supply curve.





Migration:

- Migrants are usually of working age, so the supply of labour at all wage rates tends to increase. Migration particularly affects the supply of labour at the lower wage rates, because migrants are usually from economies with average wages lower than the UK minimum wage.

Advantages of work:

- This can influence how much people prefer to work, and is linked to non-monetary advantages. If the cost of working is lower, so families can afford childcare, people are more likely to work. If the benefits of working are high, such as holiday entitlements and the potential to be promoted, the supply of labour is likely to increase.

Leisure time:

- Leisure is a substitute for work, which is why part-time work and early retirements are attractive options for some people.
- People have to choose whether to spend their time on work or leisure. This is influenced by age, the amount of taxes paid, how many dependents the worker has and income from not working.

Trade unions:

- These could attract workers to the labour market, because they know their employment rights will be defended. However, the limits on workers, such as limiting their ability to strike, might cause some people to withdraw from the labour market.



Taxes and benefits:

- If taxes are too high and benefits are too generous, people might be more inclined to withdraw from the labour market.

Training:

- If a lot of training or high qualifications are required for a job, then the supply of labour may fall. However, if the government subsidise training, it is easier for workers to gain the necessary skills for a job, so the supply of labour could increase.





Elasticity of the supply of labour:

The elasticity of supply of labour is the responsiveness of the quantity of labour supplied to a change in the wage rate.

This is affected by:

- The skills of the workforce. Skilled jobs have lower elasticities than unskilled jobs, because it is more difficult to attract workers, since only a few have the necessary skills.
- Length of training. The longer the training period for a job, the lower elasticity of labour supply.
- Sense of vocation. Some jobs have rewards which are not financial, such as teaching. These will have inelastic supplies.
- Time period. In the short run, the supply of labour is more inelastic than in the long run.

The difference between economic rent and transfer earnings

-  Transfer earnings are the minimum reward that is needed to keep labour in the current occupation.
-  When supply is perfectly elastic, the wage they receive is the equivalent of their transfer earnings.
-  When supply is upward sloping, the total factor earnings is equal to transfer earnings plus economic rent. In this market, the wage where demand equals supply is the equilibrium wage rate. This is made up of economic rent and transfer earnings.
-  Economic rent is the income earned which is more than transfer earnings i.e. it is the income earned that is above the minimum income required to keep the labour in the occupation.

