


# Edexcel (B) Economics A-level **Theme 3: The Global Economy**

## 3.5 Global Labour Markets

### 3.5.2 Wage rates

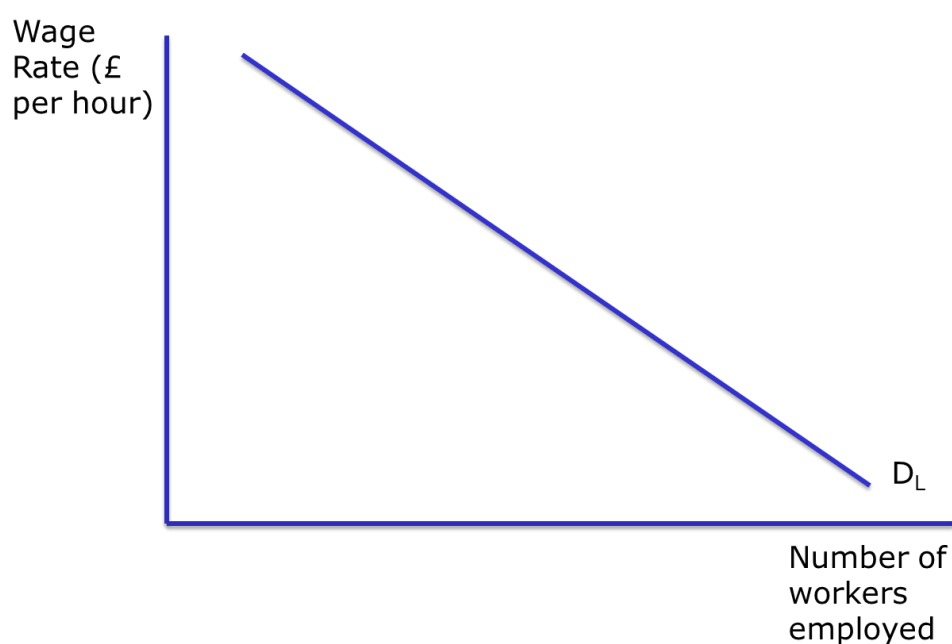
#### Notes

## Factors that influence the supply of and demand for labour

 The demand for labour is affected by:

### The wage rate:

- The downward sloping demand curve shows the inverse relationship between how much the worker is paid and the number of workers employed.



- When wages get higher, firms might consider switching production to capital, which might be cheaper and more productive than labour.

### Demand for products:

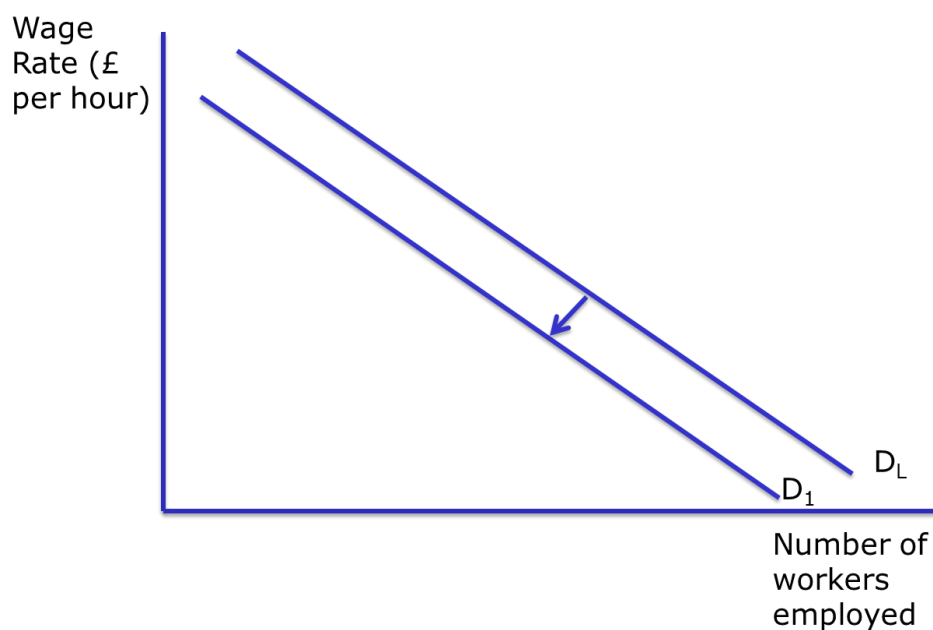
- Since the demand for labour is derived from the demand for products, the higher the demand for the products, the higher the demand for labour.

### Productivity of labour:

- The more productive workers are, the higher the demand for them.
- This can be increased with education and training, and by using technology.

### Substitutes for labour:

- If labour can be replaced for cheaper capital, then the demand for labour will fall. This will shift the demand curve for labour to the left:





#### **How profitable the firm is:**

- The higher the profits of the firm, the more labour they can afford to employ.

#### **The number of firms in the market:**

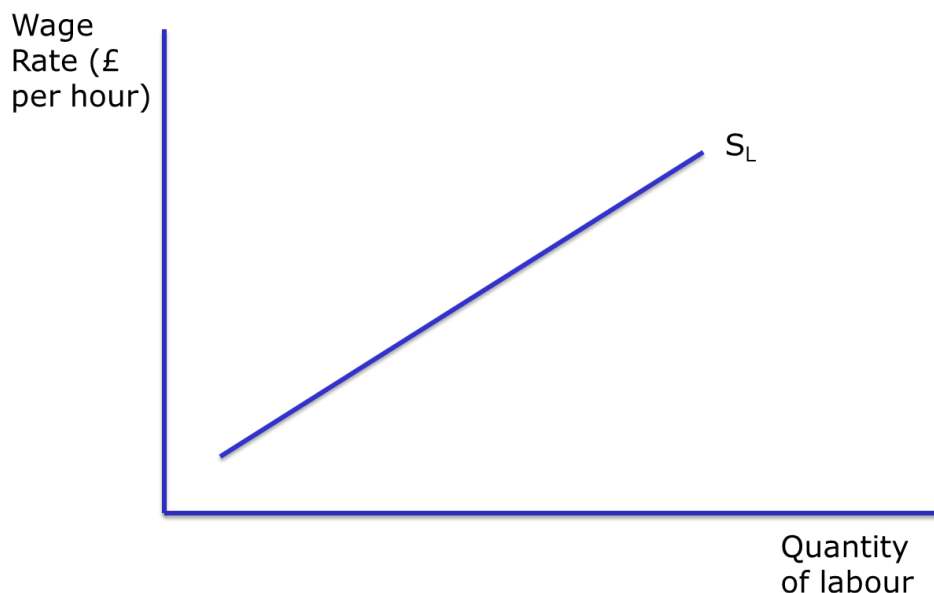
- This determines how many buyers of labour there is. If there is only one employer, for example the NHS, the demand for labour is lower than if there are many employers, such as in the supermarket industry.
- The lower demand for labour can mean wages are lower, so trade unions try to encourage higher wages.

 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:

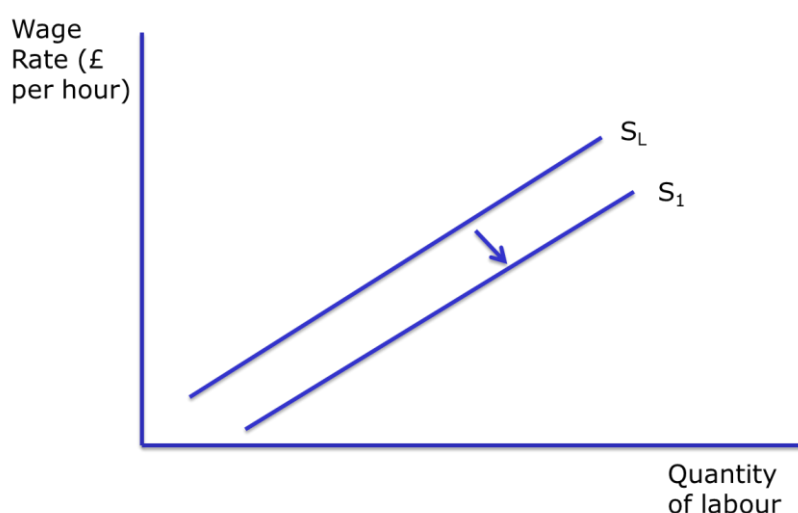
#### **The wage rate:**

- 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 the retirement and school leaving ages, the number of university students and immigration rates.
- 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 subsidises training, it is easier for workers to gain the necessary skills for a job, so the supply of labour could increase.

### **The importance of skills, training and education**

On average, those with a degree earn more over their lifetime than those who gain just A Levels.

Jobs which require more training and education offer higher wages. Training workers is expensive for firms, so they compensate for this by offering higher wages to workers who have already undergone education and training.

The wage gap between skilled and unskilled workers has increased in the UK recently. This is due to technological change and globalisation, which has shifted production abroad.


Skilled workers produce higher outputs than unskilled workers because they are more productive, so the demand for their labour is higher. This means they can demand higher wages.

### **Impact of global competition, recession and redundancies**

An increase in global competition, a recession and redundancies are all contributors towards falling wage rates.

During a recession, demand for labour falls. This is caused by a lack of demand for goods and services, and it usually occurs during periods of economic decline or recessions. Firms are either forced to close or make workers redundant, because their profits are falling due to decreased consumer spending, and they need to reduce their costs. This then causes output to fall in several industries. By making workers redundant, there is an increase in the surplus supply of labour.

### **Impact of trade unions and professional bodies**

 **Trade union power:** If trade unions are pushing for higher wages above the market equilibrium, 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.

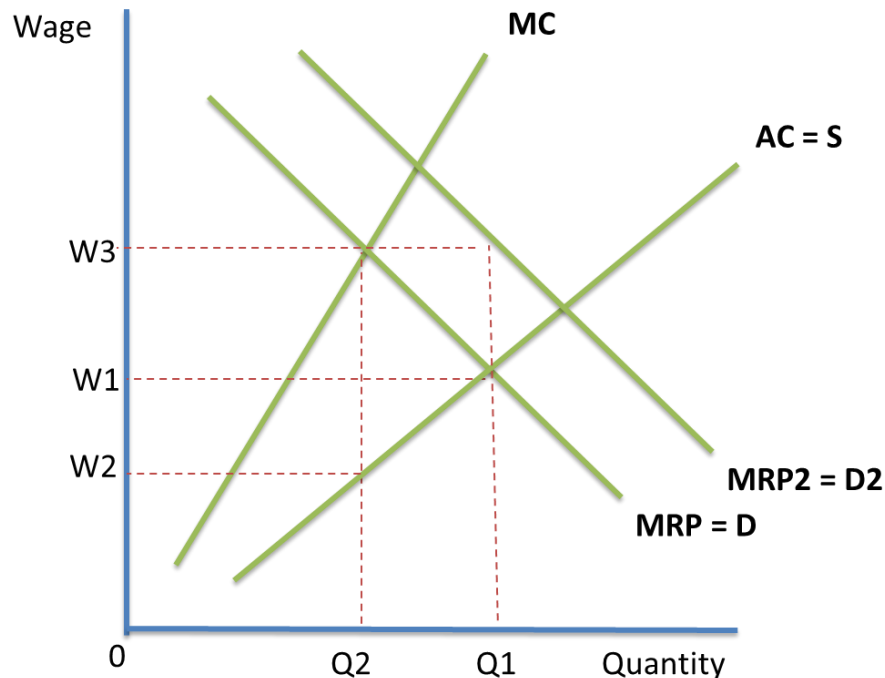
These could attract workers to the labour market, because they know their employment rights will be defended. However, the limits on workers, such as limiting their ability to strike, might cause some people to withdraw from the labour market.

Trade unions aim to protect workers, secure jobs, improve working conditions and try and achieve higher wages.

If trade unions try and increase wage rates too much, firms might no longer be able to afford to employ workers. This could cause them to close down or reduce the number of workers they employ. Some workers might prefer a low paid job rather than be without employment.

In a market where an employer has monopsony power, workers are only paid  $W_2$ , and only  $Q_2$  number of workers is employed. This is the profit maximising level.

A trade union aims to increase marginal revenue product in the market, as well as increase wages to the level of MRP ( $W_3$ ). This is to stop the exploitation of labour. The perfectly competitive level of employment and wage rate is  $W_1, Q_1$ .



**Individual bargaining, collective bargaining, and productivity bargaining**

Individual bargaining is a negotiation between a single employee and the employer.

Collective bargaining is a negotiation between employers and a collective group of employees. This is with the aim of regulating working conditions and representing the interest of employees. This is more likely to give the employees strength in the negotiation.

Productivity bargaining is an agreement where employees agree to make changes which improve productivity in order to receive higher wages.

