

Labour Demand and Supply

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Multiple Choice

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|--------|---------|---------|
| 1. (B) | 6. (C) | 11. (C) |
| 2. (B) | 7. (C) | 12. (B) |
| 3. (B) | 8. (A) | 13. (D) |
| 4. (D) | 9. (D) | 14. (B) |
| 5. (D) | 10. (D) | 15. (D) |

Short Answers

Question 1

- The demand for labour is derived from the demand for goods and services within the economy. Firms hire more labour to produce the higher level of output demanded by consumers.
- The level of economic activity impacts the demand for labour. Firms will increase production during an upturn in the business cycle and therefore hire more workers. Labour demand is also impacted by the productivity of labour, which determines how attractive labour is to firms relative to capital.
- Improvements in the productivity of labour may have a mixed impact upon the demand for labour. In the short run, improved productivity may in fact reduce demand for labour since firms are able to rely on existing labour to meet increased demand. However in the long run, firms will be more likely to substitute labour for capital due to the higher productivity, increasing demand for labour. Higher labour productivity will also result in an increase in economic activity in the long-term as firms are able to expand production with the same input costs. This in turn leads to greater demand for labour.
- During an upturn in economic activity, firms are likely to meet the increased demand for goods and services in the short run by attempting to use their existing employees more intensively. This creates a time lag between a rise in the demand for goods and services and a fall in unemployment. Likewise, when aggregate demand falls firms are delay the retrenching of workers because of the time and expense that has been taken to train those workers.

Question 2

- (a). 50 million (population aged 15 and over)
- (b). Labour force = 35 million + 5 million = 40 million (employed + unemployed aged 15 and over)
- (c). Labour force participation rate = $40/50 \times 100 = 80\%$ (labour force divided by working age population)
- (d). The level of economic activity and the labour force participation rate are linked by the likelihood of finding a job. Higher levels of economic activity will improve the prospects of finding a job. Those workers who had previously become discouraged from being unable to find a job will now begin to actively seek work, entering the labour force and raising the labour force participation rate. Conversely, during an economic downturn, it becomes more difficult to find work, which will discourage job seekers from looking for work, reducing the participation rate.
- (e). A correct answer may include any two of the following:
- Increased higher school retention rates will lead to a lower participation rate, as young people of working age choose to continue their education rather than entering the labour force. Although this means the labour force will be smaller, the economy's labour resources will be of a better quality due to increased education and skills levels.
 - Changing social attitudes can also decrease the participation rate. For example, an increasing trend for parents to leave work to raise their children would reduce membership in the labour force, lowering the participation rate.
 - An increase in the number of people who choose to retire early, or have early retirement forced upon them would see persons who would have otherwise remained in employment dropping out of the labour force, lowering the participation rate.

Question 3

- (a). \$750
- (b). $230 - 170 = 60$ (difference between quantity of labour supplied and quantity of labour demanded)
- (c). Occupational mobility refers to the ability of labour to switch between different occupations in response to wage differentials and employment opportunities, and is dependent on the education and skills required for a particular occupation. Geographical mobility, on the other hand, refers to the ability of labour to move between different locations to take advantage of employment opportunities, and depends on factors such as travel and real estate costs.
- (d). A correct answer may include any two of the following:
- A higher level of wages, or other non-wage incentives, will increase the willingness of people to sacrifice their leisure time and supply their labour.
 - Attractive working conditions, such as flexible hours or generous holiday leave, will encourage people to join a workplace and supply their labour.
 - A requirement for highly educated or skilled workers can limit the number of workers that are able to enter the labour market for a particular industry. Government policies to improve the human capital of a country, such as subsidising tertiary education, is likely to increase the supply of qualified workers.
 - The ability of labour to relocate to the regions where labour is demanded will impact the supply of labour. For example, mining sites in isolated areas of Western Australia receive a lower supply of labour, so much offer higher wages.

- (e). An increase in wages could be brought about by either an increase in the demand for labour or a decrease in supply.

An increase in demand for labour could be induced by:

- An increase in the level of aggregate demand in the economy
- Increased consumer demand for the goods or services offered by a particular industry.
- The increased demand for an individual firm's product, brought about by an improvement in the quality of the product or a marketing strategy.
- An increase in the price of capital that induces firms to substitute capital for labour.

A decrease in the supply of labour could be induced by:

- Firms choosing to offer less attractive working conditions to employees
- A shortage of skilled or qualified workers in particular sectors of the economy
- An increase in the costs of relocating workers across the country to regions where employment opportunities exist, such as an increase in the cost of housing.