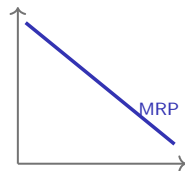


Factor Markets

AP Microeconomics ■ Unit 5

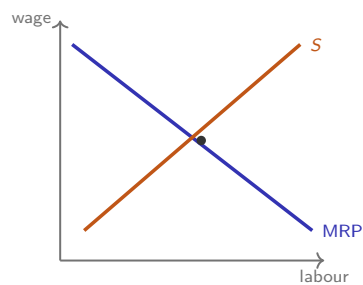
AP Microeconomics



Factor Markets

What we will cover

- 1 Factor demand & the hiring rule
- 2 Shifts in factor demand & supply
- 3 Competitive factor markets
- 4 Monopsony



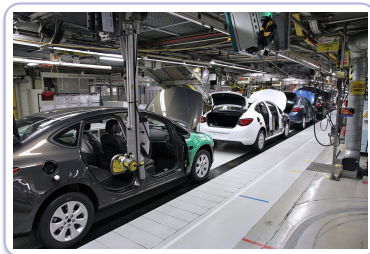
1 Factor demand

Factor demand & the hiring rule

In a **factor market** 要素市场 the firm is a **buyer** of labour, land & capital. Factor demand is a **derived demand** 派生需求.

- **MRP** 边际收益产品 = extra revenue
= $MP \times P$
- **MFC** 边际要素成本 = extra cost of one more unit

Hiring rule 雇佣法则: hire until $MRP = MFC$. The MRP curve is factor demand.



Firms hire labour for the revenue it adds

Hiring – worked example

The baker hires labour

The 5th worker adds 8 loaves/day; each loaf sells for \$5.

$MRP = 8 \times 5 = \$40$. If the wage (MFC) is \$40, hire up to this worker: $MRP = MFC$.

A 6th worker adds only 6 loaves ($MRP = \$30 < \40) – not worth hiring.

2

Shifts

Shifts in factor demand & supply

- **Factor demand** shifts with **output price** 产品价格, **productivity** 生产率, related input prices
- **Factor supply** shifts with **number of workers** 可用工人数量, job appeal, training costs

A tech boom raises app prices $\Rightarrow$ programmers' MRP jumps $\Rightarrow$ demand shifts right $\Rightarrow$ wage & jobs both rise.



Product markets drive labour demand

3

Competitive factor markets

Competitive factor markets

Many hiring firms $\Rightarrow$ each is a **wage taker** 工资接受者: MFC is constant = the market wage, so hire where $MRP = W$.

Cost-minimizing rule (many inputs)

Combine inputs so the last dollar on each buys the same output:

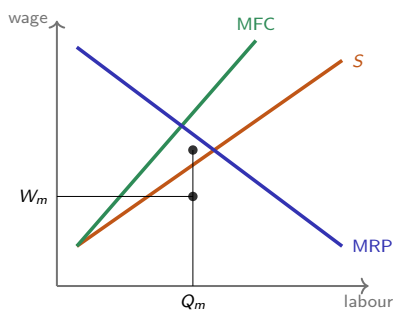
$$\frac{MP_L}{P_L} = \frac{MP_K}{P_K}.$$

If $\frac{40}{20} = 2 < \frac{30}{10} = 3$, capital gives more per dollar – use more capital until the ratios meet.

4 Monopsony

Factor Markets
└ Monopsony

Monopsony – a single buyer



A **monopsony** 买方垄断: one buyer. To hire more it must raise the wage for **everyone**, so *MFC* lies **above** *S*.

- hire where $MRP = MFC$
- pay the lower wage on *S*

⇒ fewer workers, lower wage than competitive.

Factor Markets
└ Monopsony

The minimum-wage twist

Competitive market
a **minimum wage** 最低工资
above equilibrium
→ unemployment

Monopsony
a well-set minimum wage
raises **both** wage and jobs

The minimum wage removes the monopsonist's power to push the wage down, flattening its cost of labour so it can expand hiring.

Key points

Factor demand is **derived**;
hire until $MRP = MFC$

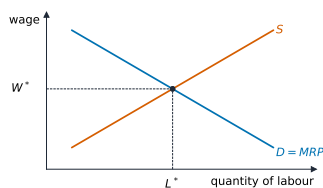
The MRP curve **is** the
factor demand curve

Competitive: wage taker,
hire where $MRP = W$

Monopsony: fewer work-
ers, lower wage; $MFC > S$

Check yourself

- 1 State the hiring rule for labour.
- 2 Why does a monopsony hire fewer workers?
- 3 What happens to MRP if the product's price rises?
- 4 Can a minimum wage raise employment under monopsony?



Answers 1. hire while $MRP \geq$ the wage 2. its marginal factor cost exceeds the wage
3. it rises – factor demand is derived 4. yes – that is the twist