

6.1 Labour markets

Name: _____ Class: _____ Date: _____

Total: 21 marks

KEY WORDS derived demand • trade union

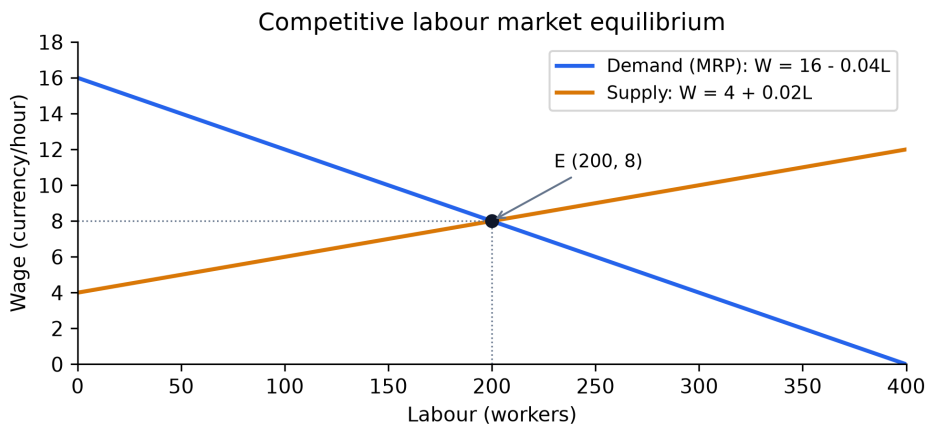
Labour markets

Objective

Apply derived demand and its elasticity factors, labour supply influences, competitive wage determination and the mobility failures (spec 3.3.4, rows 1–4). Model: supply $W = 4 + 0.02L$, demand $W = 16 - 0.04L$.

1 Key knowledge and worked examples

The labour market. Demand for labour is derived from product demand, productivity, product price and the wage-relative-to-capital. Supply responds to population, migration, tax, benefits, regulation and unions. Equilibrium solves $4 + 0.02L = 16 - 0.04L$: $L = 200$, $W = 8$. Geographical and occupational immobility keep vacancies and unemployment side by side.



Original model; the equilibrium is computed in the worked examples.

2 Practice

2.1 Explain why the demand for bricklayers is called a derived demand, and name one further influence on it. [2]

2.2 Name any four of the six influences on the supply of labour to an occupation. [2]

2.3 Solve the model equilibrium for L and W . [3]

2.4 House-building demand rises. Which curve shifts, in which direction, and what happens to the equilibrium wage and employment? [2]

2.5 Distinguish geographical from occupational immobility with one cause of each. [2]

2.6 Give one reason public-sector wages may not equal the market-clearing wage. [2]

3 Exam-style questions

3.1 (*Original.*) Net migration raises the labour supply so that supply becomes $W = 2 + 0.02L$. Find the new equilibrium and the change in wage and employment. [4]

3.2 (*Original.*) Analyse two consequences of occupational immobility for an economy losing its manufacturing base. [4]

Solutions

2.1 Bricklayers are hired for what they produce – houses – so the demand follows the demand for housing, not the labour itself. A further influence: productivity of bricklayers (or the house price, or the wage relative to capital equipment).

2.2 Any four of: size of population; net migration; income tax rates; level of welfare benefits; government regulations; trade unions.

2.3 $4 + 0.02L = 16 - 0.04L$ gives $0.06L = 12$, so $L = 200$ workers and $W = 4 + 0.02 \times 200 = 8$ per hour.

2.4 The demand (MRP) curve shifts RIGHT: at each wage more bricklayers are wanted. Both the equilibrium wage and employment rise.

2.5 Geographical immobility: workers cannot or will not move to where jobs are (cause: housing cost differences, family ties). Occupational immobility: workers cannot switch occupations (cause: training costs, skills specific to the old trade).

2.6 Public pay is set by budget processes and pay-review bargaining, not the market – a cap or settlement can hold the wage above or below the market-clearing level, creating queues or shortages.

3.1 New supply $2 + 0.02L = 16 - 0.04L$ gives $0.06L = 14$, so $L = 233\frac{1}{3}$ (about 233) workers and $W = 2 + 0.02 \times 233.3 \approx 6.67$ per hour. Employment rises by about 33 workers and the wage falls by about 1.33 per hour – the supply shift right lowers the wage and raises employment along the unchanged demand curve.

3.2 Mismatch unemployment: redundant manufacturing workers lack the skills for growing service occupations, so unemployment persists beside vacancies (occupational immobility). Structural costs: output inside the PPF, benefits spending rises while tax revenue falls; regional decline compounds as the immobile workforce cannot follow the jobs. Remedies (training, retraining grants) are slow, so the loss persists in the medium run.

Local review guidance: equilibrium solved before any direction claims; supply/demand influences named from the specification lists; consequences tied to the immobility MECHANISM, not just “unemployment”. This is authored classroom guidance.