

Labour markets and government intervention

Edexcel IAL Economics WEC13 sections 3.3.4-3.3.5 full package on the shared labour model

1. Topic 6 at a glance

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WEC13 second half: spec sections 3.3.4 and 3.3.5 - labour markets (derived demand, supply, wage determination, mobility failure) and government intervention in product and labour markets.

Must-know: the labour model $S: W = 4 + 0.02L$, $D: W = 16 - 0.04L$ with equilibrium (200, 8); min wage 9 gives L_d 175 against L_s 250 (75 unemployed); max wage 6 gives L_d 250 against L_s 100 (shortage 150); the six monopoly-control and five competition measures with five impact axes and four limits.

2. Demand and supply of labour

Demand and supply of labour

Labour demand is DERIVED from the product: it follows product demand, labour productivity, the product price, and the wage relative to capital. Its elasticity follows product-demand elasticity, labour's cost share, substitutability and time.

Labour supply follows population, net migration, income tax, welfare benefits, regulation and unions; supply elasticity follows time, vocationalness of skills and mobility.

3. Wages and mobility failure

Wages and mobility failure

Equilibrium: $4 + 0.02L = 16 - 0.04L$ gives (200, 8). Product-demand shifts move MRP; supply shifts move the wage the other way. Public-sector wages are set by budget and bargaining, not the market.

Geographical immobility (housing costs, family ties) and occupational immobility (training costs, specific skills) leave vacancies beside unemployment - persistent mismatch that pure wage movement cannot clear.

4. Intervention in product markets

Intervention in product markets

The case: market power, externalities, information gaps, equity. Control of monopoly and mergers: price regulation, profit regulation, quality standards, performance targets, regulatory referral, merger legislation. Promote competition: tax incentives and grants, deregulation, privatisation, competitive tendering, trade liberalisation.

Protect suppliers and employees: local sourcing, employment law, entry barriers, monopsony restrictions, nationalisation. Judge each measure on price, profit, efficiency, quality, choice - and respect the limits: regulatory capture, information gaps, resources, power.

5. Intervention in labour markets

Intervention in labour markets

Maximum wage 6 caps the price of labour: L_d 250 against L_s 100 - a shortage of 150, vacancies unfilled. Minimum wage 9 floors it: L_s 250 against L_d 175 - 75 workers unemployed, though each employed worker earns more.

Direct taxes (national insurance, corporation tax) raise hiring costs; mobility measures (training, relocation) attack the mismatch root; anti-discrimination law closes exploitation. Evaluation: with a MONOPSONIST employer, a well-placed minimum can raise BOTH wage and employment.

Check yourself

Check yourself

Derived demand with its four influences and elasticity factors; supply with its six influences.

Equilibrium (200, 8); shift analysis; public-sector wage setting; the two immobilities.

Product-market intervention: the case, the six-five-five measure families, five impact axes, four limits.

Labour-market intervention: max wage 6 and min wage 9 arithmetic, taxes, mobility and discrimination measures.