GCSE Economics: Theme 2.7 The Labour Market

Why do people do the jobs they do?

What is the labour market?

The labour market consists of the supply of labour from households and the demand for labour by firms. The interaction of these will give the price for labour (wages).

Wages provide an income to households but are a cost to firms.

In a free market the forces of supply and demand would set the wage level but governments and trade unions will influence the wage level.

What main labour markets exist?

Local	Within a short commuting distance of a worker's home
National	This covers the whole of the UK
International	The whole world or a large section (EU)

What is the role of the labour market?

To enable workers who are willing and able to sell their labour to meet employers who are willing and able to give them a job.

To determine the wage rate for this work.

What smaller interacting markets exist within each labour market?

- Qualifications
- Skills
- Geographical locations

What information exchange do labour markets rely on?

- Wage rates
- Conditions of employment
- Level of competition
- Location of the job

What might prevent the perfect operation of the labour market?

There is not perfect mobility in the labour market. Labour cannot move freely from one job to another. Possible reasons:

- Lack of skills
- Unwillingness to relocate
- Personal factors
- Lack of information about available jobs (information failure)

You will learn more about information failure in Topic 2.8

What is meant by the interaction of workers and employers?

- Individual workers can deal directly with their employer to establish wages, working conditions etc
- Many workers belong to a trade union. The trade union will interact with employers on behalf of its members to establish wages, working conditions etc. This is known as collective bargaining.

How are wages determined? (a)

What is the supply of labour?

The working population; those who are both willing and able to supply their labour. A potential additional supply of people who are currently inactive.

Active labour supply	Inactive labour supply
Employed consisting of:	Unemployed consisting of:
Employees	Looking after family
Self-employed	Short term sick
Those on government schemes	Long term sick
Unpaid workers	Discouraged workers
Unemployed	Students
	Retired

What factors affect the supply of labour?

- ***Wage rate*** – higher wages will attract more workers
- ***Other money payments*** – overtime, bonus payments etc
- ***Size of working population*** – affected by retirement and school leaving ages, migration etc
- ***Non-monetary factors*** – working conditions, job security etc
- ***Barriers to entry*** – necessary qualifications, trade unions, discrimination etc
- ***Education and training*** – will increase the number of skilled workers

Exam Criteria

- **Explain** the role and operation of the labour market
- **Explain** the interaction between workers and employers
- **Analyse** the factors affecting the supply of labour
- **Analyse** the factors affecting the demand for labour
- **Analyse** the determination of wages through supply and demand
- **Explain** and **calculate** gross pay
- **Explain** and **calculate** net pay
- **Explain** deductions involved in moving from gross to net pay including income tax, national insurance and pension contributions

Key Vocab

Word Wall

Pension- A fixed amount paid at regular intervals to a person or their surviving

Gross - Total amount of pay earns before deductions

Net – Pay after deductions have been made.

Levy – Impose a tax

Key Terms

Labour market – Where workers sell their labour and employers buy the labour: it consists of households' supply of labour and firms' demand for labour

Supply of labour – The total number of people who are willing and eligible to supply their labour, including the unemployed

Gross pay – The amount of money an employee earns before any deductions are made

Income tax – A tax levied directly on a personal income (a wage)

National Insurance – A contribution paid by workers and their employers towards the cost of state benefits

Net pay – The amount of money that an employee is left with after deductions are made from gross pay

Trade Union – An organisation of workers who act to protect and further their rights and interests

How are wages determined? (b)

What is the demand for labour?

A derived demand as it depends on the demand for the product that the labour helps to produce. If consumers want more of a product, firms will demand more labour.

Study Tips

Remember that the price of labour is wages. Wages, not price should therefore be used on labour market diagrams.

How are wages calculated?

What is gross pay?

The amount of money an employee actually earns before any deductions are made. It includes overtime payments, bonuses and allowances. It is gross pay that is quoted when advertising jobs

What is net pay?

Net pay is also known as 'take-home pay'. It is the actual amount of money an employee has to spend or save after all deductions have been made.

Deductions include:

- Income tax
- National Insurance
- Pension contributions

How do we calculate gross and net pay?

Gross Pay – Take your base pay (stated on contract) and add any extra payments:

Payments per month	£
Wage	2,500
Bonus	300
Total	2,800

Net Pay – Depends on which deductions are made

Gross pay and deductions per annum	£
Gross pay	24,000
Income tax	2,512
National insurance	1,925
Pension contribution	1,440
Net pay	18,123

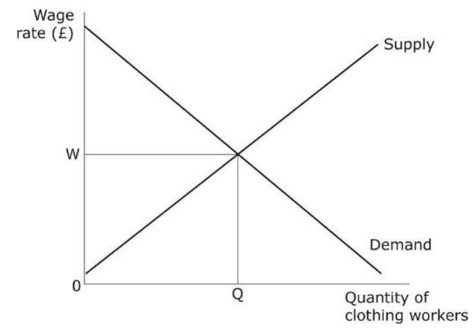
n.b. Pension contributions are the monies a worker pays into a workplace pension scheme which the employer also pays into. Student loan repayments are also classed as a deduction.

What factors affect the demand for labour?

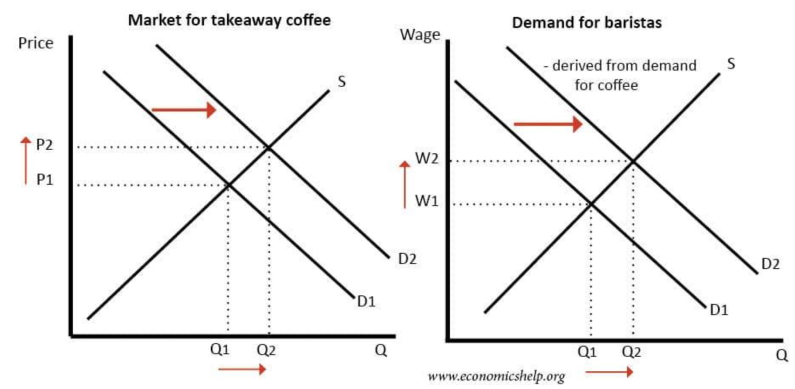
- ***The state of the economy*** – more labour is demanded as the economy grows
- ***Demand for goods*** – If demand in a particular market is growing fast then the demand for labour in the market will increase
- ***Wage rates*** – there is an inverse relationship between ware rates and the demand for labour; less labour will be demanded at higher wages
- ***Real wages*** – a fall in real wages may encourage producers to employ more rather than invest in capital
- ***Productivity of labour*** – If this rises, labour may become cheaper than capital investment
- ***Profitability of firms*** – firms making large profits are likely to expand and therefore need more workers.

How does supply and demand determine wages?

The labour market works in exactly the same way as the markets for goods and services in topic 2.4; where supply and demand meet is the equilibrium price for labour (the wage).



The demand for labour is dervived from the demand for the product or service being produce:



The size of any change will depend on the PED and PES of labour. Supply of labour will be inelastic if there are limited people who could fulil the role and more elastic if many people could fulfil it.