44. Supply of Labour

1. Individual Supply of Labour

1.1 Fill in the missing words
Work is seen to be an ________________ good, in other words as ________________ rises the willingness to work will ___________ and instead be substituted by leisure which is seen to be a normal good i.e. as income __________ then demand for leisure will increase.

Using the backward bending supply curve of labour explain what is happening to income and then the number of hours supplied at each point.

A,A ____________________________________

B,B __________________________________________________________________

C,C ____________________________________

This process is known as the income and ________________ effect, with the ________________ effect outweighing the ________________ effect as incomes rise between B & C.

2. The Supply of Labour to a firm

Draw the supply curve of labour for a firm assuming it can employ an additional employee at the prevailing wage rate of £10 per hour. Use the set of axis below.

What does it suggest about the price elasticity of supply for a labour for this firm? ________________________________

What does it suggest about the competitiveness of the market for labour in this industry? ________________________________

What is the marginal cost of labour for this firm? _____________

Consider a market where almost everyone is employed by the same employer – for example the military, teaching, or nursing.

Therefore the firm’s supply curve is the same as the industry supply curve – so to attract one more worker into the industry and presumably take them away from another industry the salary must increase, otherwise they will remain indifferent about joining this industry. How does this affect the salaries of all other employees in the firm doing the same job? ________________

Complete the following table

<table>
<thead>
<tr>
<th>No of workers</th>
<th>Cost of Labour</th>
<th>Total Cost of Labour</th>
<th>Marginal Cost of Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£10</td>
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<tr>
<td>2</td>
<td>£12</td>
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<td>4</td>
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</tr>
<tr>
<td>5</td>
<td>£18</td>
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</table>

Based on the data in the table (above)

Draw the marginal cost for the firm on this set of axis.

Draw the supply curve for this firm (industry) on the set of axis.

Describe the relationship between the marginal cost and supply curve. ________________________________
44. ANSWERS: Supply of Labour

1. Individual Supply of Labour

1.1 Fill in the missing words

Work is seen to be an **inferior** good, in other words as **income** rises the willingness to work will **fall** and instead be substituted by leisure which is seen to be a normal good i.e. as **income** rises then demand for leisure will increase.

Using the backward bending supply curve of labour explain what is happening to income and then the number of hours supplied at each point.

A, A **As the wage rate rises the number of hours worked increases**

B, B **As the wage rate rises the number of hours supplied continues to rise, but at B the worker stops supplying any more hours. Further wage increases will result in less hours supplied.**

C, C **As wages rise workers will work less and take more leisure time.**

This process is known as the income and **substitution** effect, with the **income** effect outweighing the **substitution** effect as incomes rise between B & C.

2. The Supply of Labour to a firm

Draw the supply curve of labour for a firm assuming it can employ an additional employee at the prevailing wage rate of £10 per hour. Use the set of axis below.

What does it suggest about the price elasticity of supply for a labour for this firm? **Perfectly elastic**

What does it suggest about the competitiveness of the market for labour in this industry? **Perfectly competitive**

What is the marginal cost of labour for this firm? **£10**

Consider a market where almost everyone is employed by the same employer – for example the military, teaching, or nursing. Therefore the firm’s supply curve is the same as the industry supply curve – so to attract one more worker into the industry and presumably take them away from another industry the salary must increase, otherwise they will remain indifferent about joining this industry. How does this affect the salaries of all other employees in the firm doing the same job? **They must all rise also**

Complete the following table

<table>
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</thead>
<tbody>
<tr>
<td>1</td>
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</tr>
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</table>

Based on the data in the table (above) Draw the supply curve for this firm (industry) on the set of axis.

Draw the marginal cost for the firm on this set of axis.

Describe the relationship between the marginal cost and supply curve. **The MC is greater than the Wage rate paid to attract that worker, because all the other employees must also be paid the higher salary.**