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Paper-1
Topic- Demand for Labour
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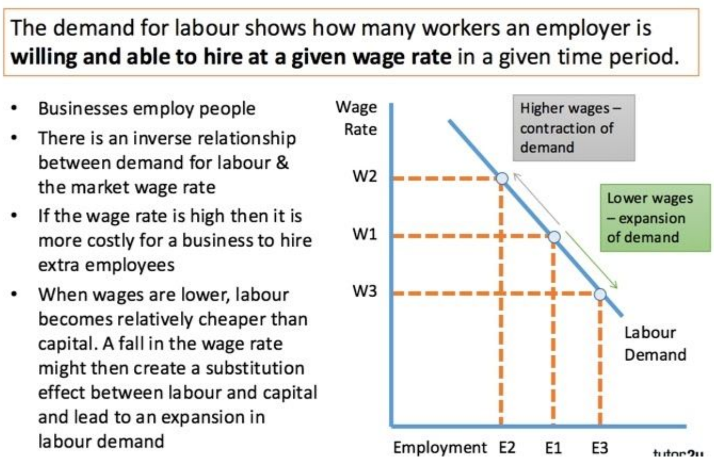
<u>Demand for Labour</u>

The demand for labor is an economics principle derived from the demand for a firm's output. That is, if demand for a firm's output increases, the firm will demand more labor, thus hiring more staff. And if demand for the firm's output of goods and services decreases, in turn, it will require less labor and its demand for labor will fall, and less staff will be retained.

Labor market factors drive the supply and demand for labor. Those seeking employment will supply their labor in exchange for wages. Businesses demanding labor from workers will pay for their time and skills.

The Demand for Labour

- Many factors influence how many people a business is willing and able to take on. But we start with the most obvious – **the wage rate or salary**
- There is an inverse relationship between the demand for labour and the wage rate that a business needs to pay as they take on more workers
- If the wage rate is high, it is more costly to hire extra employees
- When wages are lower, labour becomes relatively cheaper than for example using capital inputs. A fall in the wage rate might create a substitution effect and lead to an expansion in labour demand.

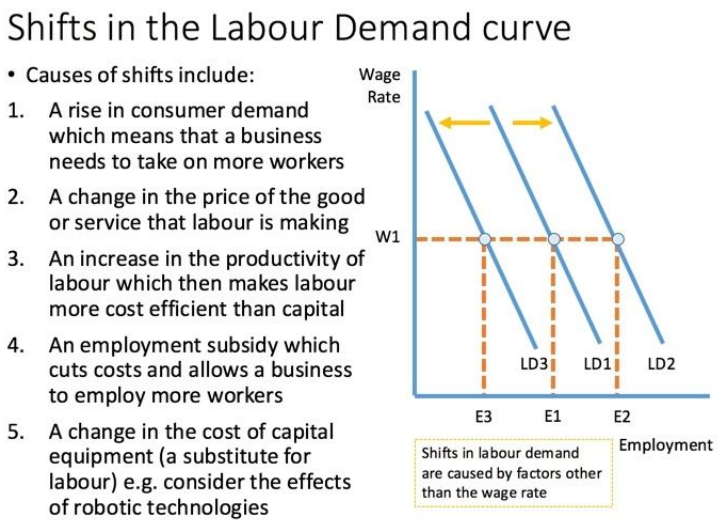


Shifts in the Demand for Labour

The number of people employed at each wage level can change and in the next diagram we see an outward shift of the labour demand curve. The curve shifts when there is a change in the conditions of demand in the jobs market. For example:

- A rise in the level of consumer demand for a product which means that a business needs to take on more workers (see below on the concept of derived demand)
- An increase in the productivity of labour which makes using labour more cost efficient than using capital equipment
- A government employment subsidy which allows a business to employ more workers

The labour demand curve would shift inwards during a recession when sales of goods and services are in decline, business profits are falling and many employers cannot afford to keep on their payrolls as many workers. The result is often labour redundancies and an overall decline in the demand for labour at each wage rate.



Labour as a Derived Demand

- The demand for all factor inputs, including labour, is a derived demand i.e. the demand depends on the demand for the products they produce
- When the economy is expanding, we see a rise in demand for labour providing that the rise in output is greater than the increase in labour productivity
- During a recession or a slowdown, the aggregate demand for labour will decline as businesses look to cut their operations costs and scale back on production.
- In a recession, business failures, plant closures and short term redundancies lead to a reduction in the derived demand for labour.
- In fast-growing markets, there is often a strong rise in demand for labour – for example an increase in demand for new apps for smart phones and tablets causes an increase in labour demand and then higher wage rates for app programmers.