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Paper -MJC
Topic- Demand for Labour(Labour Market)

Demand for Labour

The demand for labour 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 labour, thus hiring more staff. And if demand for the firm's output of goods and services decreases, in turn, it will require less labour and its demand for labour will fall, and less staff will be retained.

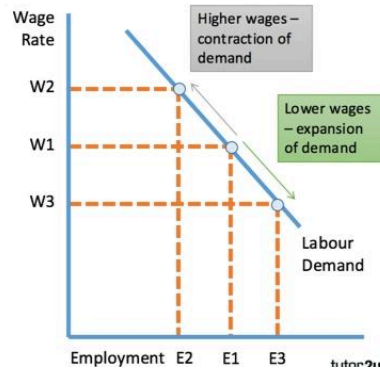
Labour market factors drive the supply and demand for labour. Those seeking employment will supply their labor in exchange for wages. Businesses demanding labour from workers will pay for their time and skills.

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.

The demand for labour shows how many workers an employer is **willing and able to hire at a given wage rate** in a given time period.

- Businesses employ people
- There is an inverse relationship between demand for labour & the market wage rate
- If the wage rate is high then it is more costly for a business to hire extra employees
- When wages are lower, labour becomes relatively cheaper than capital. A fall in the wage rate might then create a substitution effect between labour and capital and lead to an expansion in labour demand



Shifts in the Labour Demand Curve

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:

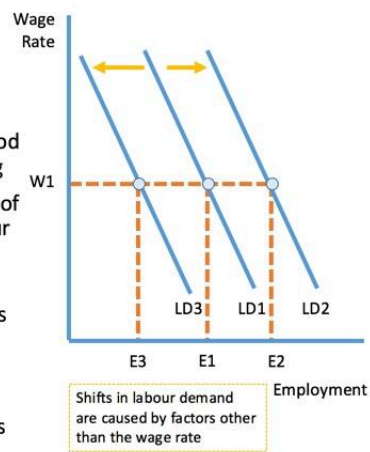
- A rise in the level of consumer demand for a product which means that a business needs to take on more workers (see below on the concept of derived demand)
- An increase in the productivity of labour which makes using labour more cost efficient than using capital equipment
- A government employment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

Shifts in the Labour Demand curve

• Causes of shifts include:

1. A rise in consumer demand which means that a business needs to take on more workers
2. A change in the price of the good or service that labour is making
3. An increase in the productivity of labour which then makes labour more cost efficient than capital
4. An employment subsidy which cuts costs and allows a business to employ more workers
5. A change in the cost of capital equipment (a substitute for labour) e.g. consider the effects of robotic technologies



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.