

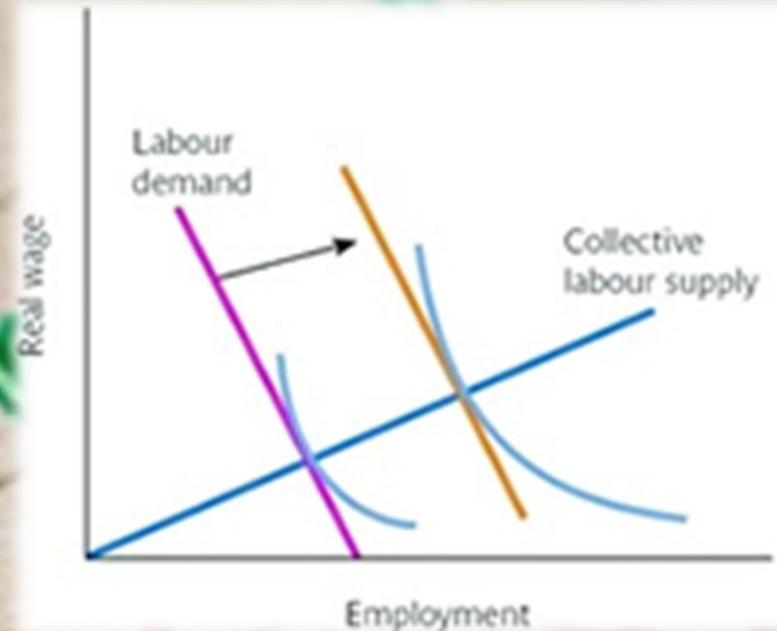


# Principles of Microeconomics

## Labor and Wages

# Summary

- Jobs that have a small supply of workers pay the most
- Jobs that have a lot of people (large supply) to do the work will pay less



# Figuring Unemployment

- Supply and Demand for Labor determine employment and unemployment



# Labor Demand

- Derived Demand – a person's job relies on people wanting a certain product (Ex: A Chef's job relies on people wanting to eat his restaurant)
  - In a competitive market workers are paid for the value they produce

## Labor Demand

- The higher the wage rate, the smaller the quantity of labor demanded by firms and government.
  - -Note: Not all labor markets are competitive

### Effects of Wage Increases

A new restaurant opens in town, offering higher wages for cooks.



Other restaurants must raise wages for cooks in order to compete for scarce labor.



Restaurants increase the price of meals to cover their increased labor costs.



When the price of meals increases, consumer demand decreases.



As business decreases, restaurants' demand for cooks decreases.

# Labor Supply and Equilibrium Wage

## Labor Supply

- As wages increase, the quantity of labor supplied also increases.

## Equilibrium Wage

- Sometimes the same jobs can have different equilibrium wages. Why? Different locations have different demand and supply available.
- Where demand for labor meets the supply of labor
  - -No Surplus or Shortage

# Wages and Skill Levels

- Wages vary according to workers' skill levels and education. Jobs are often categorized into the following four groups:

## Unskilled Labor

**Unskilled labor** requires no specialized skills, education, or training. Examples: waiters, messengers, janitors (cleans buildings)

## Semi-Skilled Labor

**Semi-skilled labor** requires minimal specialized skills and education. Example: fork-lift operator, construction worker

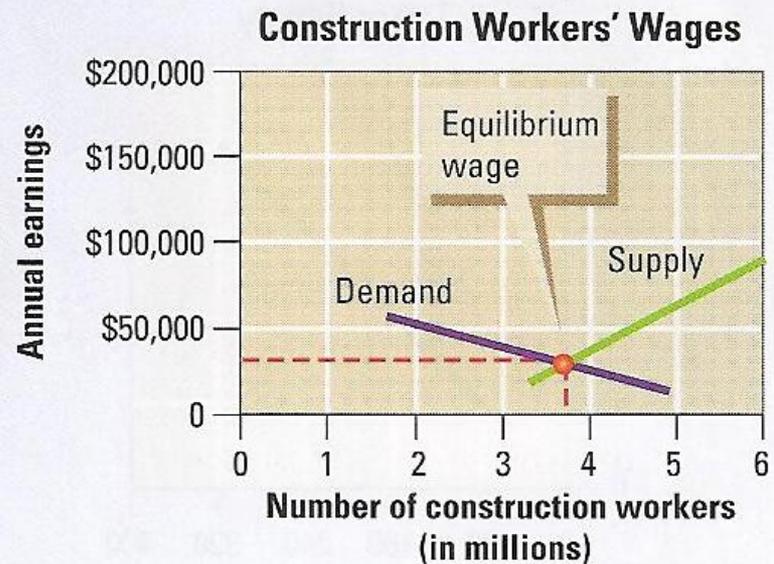
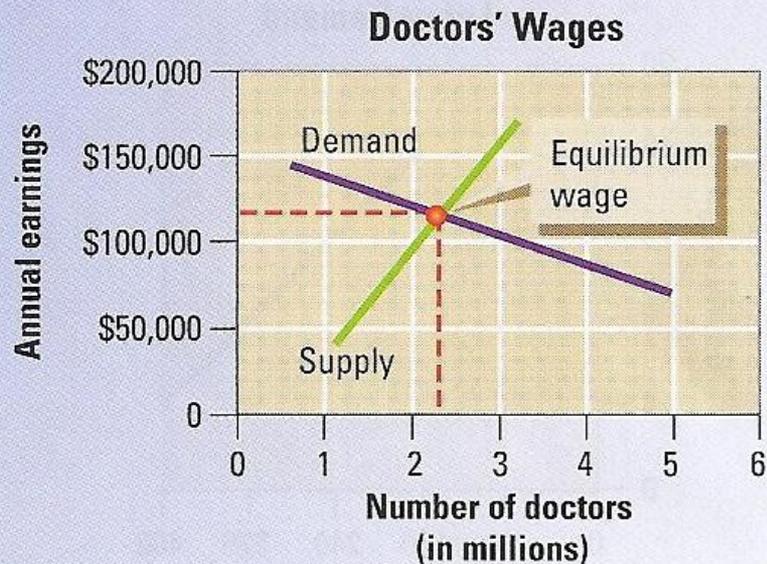
## Skilled Labor

**Skilled labor** requires specialized skills and training. Examples: auto mechanics, plumbers, firefighter

## Professional Labor

**Professional labor** demands advanced skills and education. Examples: lawyers, doctors, teachers

**Figure 9.9 Comparison: Wages for Doctors, Construction Workers**



# Things that affect Wages besides supply and demand

1. Is the job dangerous?
2. Is it hard physical or mentally?
3. Is the job in a good or bad location?
4. Is the job in a cold, hot, wet, flooded, etc. area?

# Wage Discrimination

- Wage Discrimination – Paying someone less because of their skin color, where they are from, their sex, etc. but the people do the same job and have the same education and skills



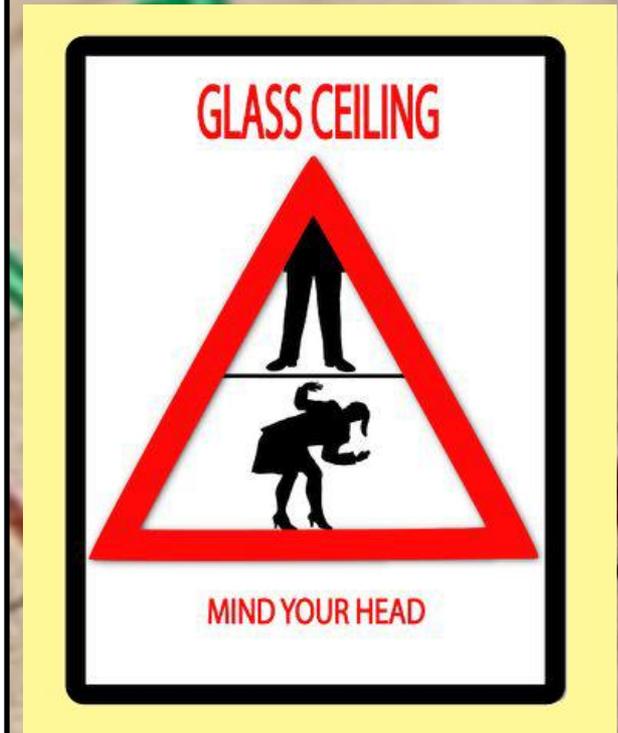
# Stopping Wage Discrimination

- EEOC enforces (makes sure people follow) these laws
- 1963 Equal Pay Act – same job, same pay
- 1964 – Civil Rights Act did not allow job discrimination because of race, sex, color, religion, or nationality
  - But Churches and small businesses were exempt (did not have to follow) this law.



# Pay Levels for Women

- Past . .
  - Women got paid less because they usually worked in jobs with a large supply
  - Women had less educational opportunity
  - People thought women wanted to stay at same job
    - -Easy to maintain balance of family and work life
- Today women have risen in society but...
  - Still Glass Ceiling – An invisible barrier that stops people from getting jobs they should be able to get.



# Wage Discrimination

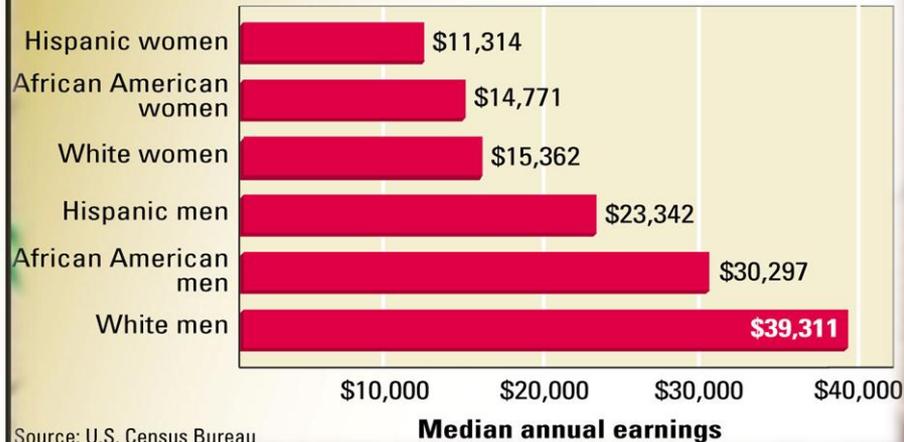
## Pay Levels for Women

- Despite these protections, American women today earn about 75 percent of what men earn.

## Pay Levels for Minorities

- As the figure to the right shows, racial minorities tend to earn lower pay than white men.

Median Earnings for U.S. Workers, by Gender and Ethnicity, 1999



# What else affects wages?

1. Minimum Wage Laws - government says employees cannot be paid less than a certain amount, pay more for people who work over 40 hours a week

2. Safety Laws – Companies provide a safer workplace > job is less risky so employer's can pay less

3. People vs. Machines – When labor gets expensive companies will use machines, if they can, to do the same work so they can save money

4. Labor Unions – can argue for a group of workers to get a higher wage

