

Chapter 17 The supply of labour

Answers to Knowledge checks

- 17.1** Under perfect competition, an individual firm cannot influence the price of labour (i.e. the wage rate). It can therefore employ as many workers as it likes at the going wage rate, so the supply curve is perceived to be horizontal (i.e. perfectly elastic).
- 17.2** The emigration of nurses would lead to a decrease in supply — there would be fewer nurses available at any wage rate, so the supply curve would shift to the left.
- 17.3** If the economy is at full employment, there will be a shortage of labour, so the supply of labour will be relatively inelastic.
- 17.4** If the accountant remains in her current position because the offered salary is only marginally higher than that which she is already earning, this suggests that her current salary reflects her transfer earnings.

Answers to Exercises and Case studies

Exercise 17.1

There are three possible options that apply in this exercise.

Figure A17.1 shows an increase in labour supply (i.e. a shift in the curve to the right).

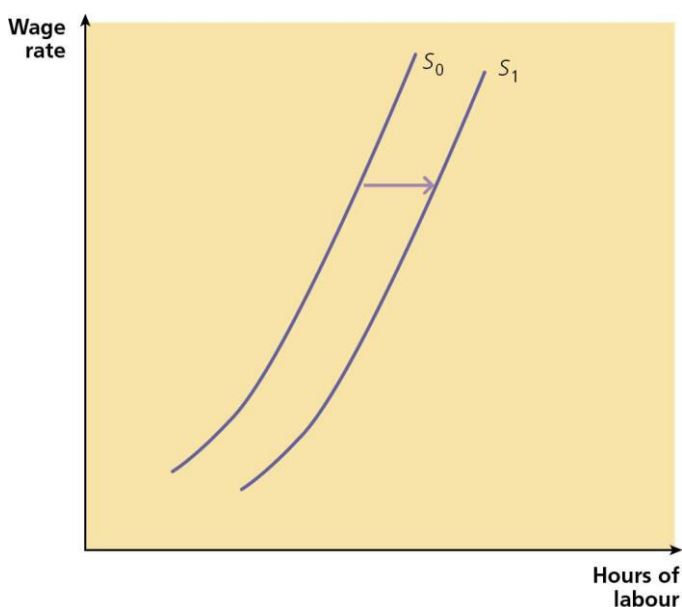


Figure A17.1 An increase in labour supply

Figure A17.2 shows a decrease in labour supply (i.e. a shift in the curve to the left).

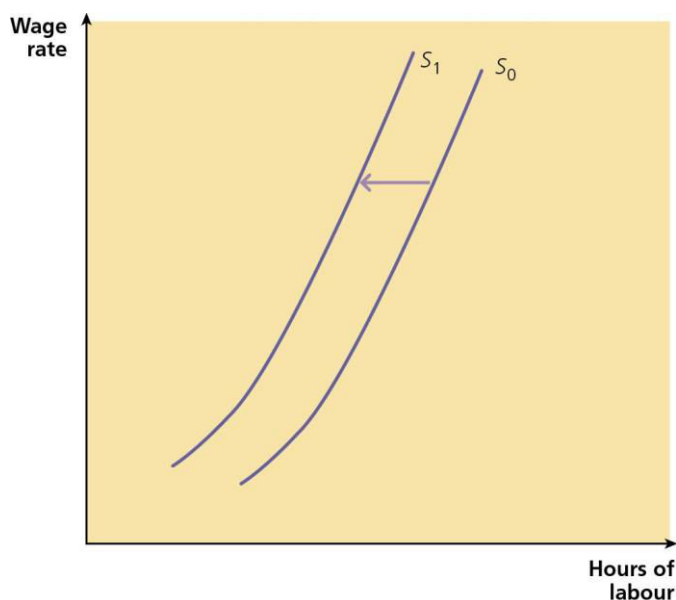


Figure A17.2 An decrease in labour supply

Figure A17.3 shows a movement along the labour supply curve.

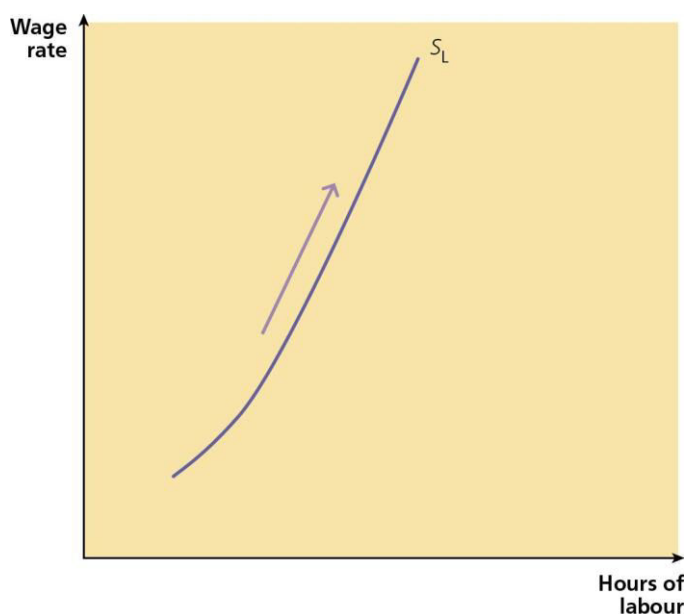


Figure A17.3 A movement along the labour supply curve

- a** An increase in the number of engineering graduates is an increase in supply (Figure A17.1).
- b** If the wage rate rise there will be an extension of supply (a movement up along the labour supply curve), as shown in Figure A17.3.
- c** An increase in the wage paid to web designers will induce some computer programmers to switch, so there will be a decrease in labour supply of computer programmers, as in Figure A17.2.
- d** If qualifications are tightened, there will be a decrease in labour supply (Figure A17.2).
- e** An improvement in non-pecuniary benefits will encourage an increase in labour supply (Figure A17.1).

- f** An epidemic that causes a decrease in the size of the working population results in a decrease in labour supply (Figure A17.2). This is what happened across much of sub-Saharan Africa in the HIV/AIDS epidemic.

Answers to end-of-chapter questions

A Multiple-choice questions

- 1** b. The demand for the product
2 d. A decrease in wages and an increase in quantity

B Knowledge and understanding questions

- 3** Wages are determined at the intersection of labour demand and labour supply. This determines the equilibrium wage rate for an industry.

An explanation of wage determination in a competitive market	up to 2 marks
A diagram showing how wages are determined in a competitive market	up to 2 marks

- 4** Economic rent is a payment received by a factor of production over and above what would be needed to keep it in its present use.

An explanation of economic rent	up to 2 marks
A diagram showing economic rent	up to 2 marks

- 5** Transfer earnings is the minimum payment required to keep a factor of production in its present use.

An explanation of transfer earnings	up to 2 marks
A diagram showing transfer earnings	up to 2 marks

C Stimulus response question

- 6 a**

AO1 Knowledge	2 marks
AO2 Application	2 marks
AO3 Analysis	2 marks

Knowledge (2 marks) is likely to include:

- Demand for labour
- Supply of labour
- Transfer earnings
- Economic rent

Application (2 marks) is likely to include:

- Application to the demand for and supply of checkout operators
- Application to the supply of and demand for film stars

Analysis (2 marks) is likely to include:

Analysis of why checkout operators are paid less than film stars, for example:

- Larger supply of checkout operators compared with film stars — skills, talent required, etc.
- Marginal revenue product of checkout operators compared with film stars
- Analysis of elasticity of supply and demand in each occupation — economic rent and transfer earnings

b As the demand for checkout operators falls, the demand for their services also falls, shifting the demand curve to the left, and therefore decreasing wages and quantity.

An explanation of the effect of decreasing demand for checkout operators on the demand for checkout operators	up to 2 marks
A diagram showing the effect of decreasing demand for checkout operators on the demand for checkout operators	up to 2 marks