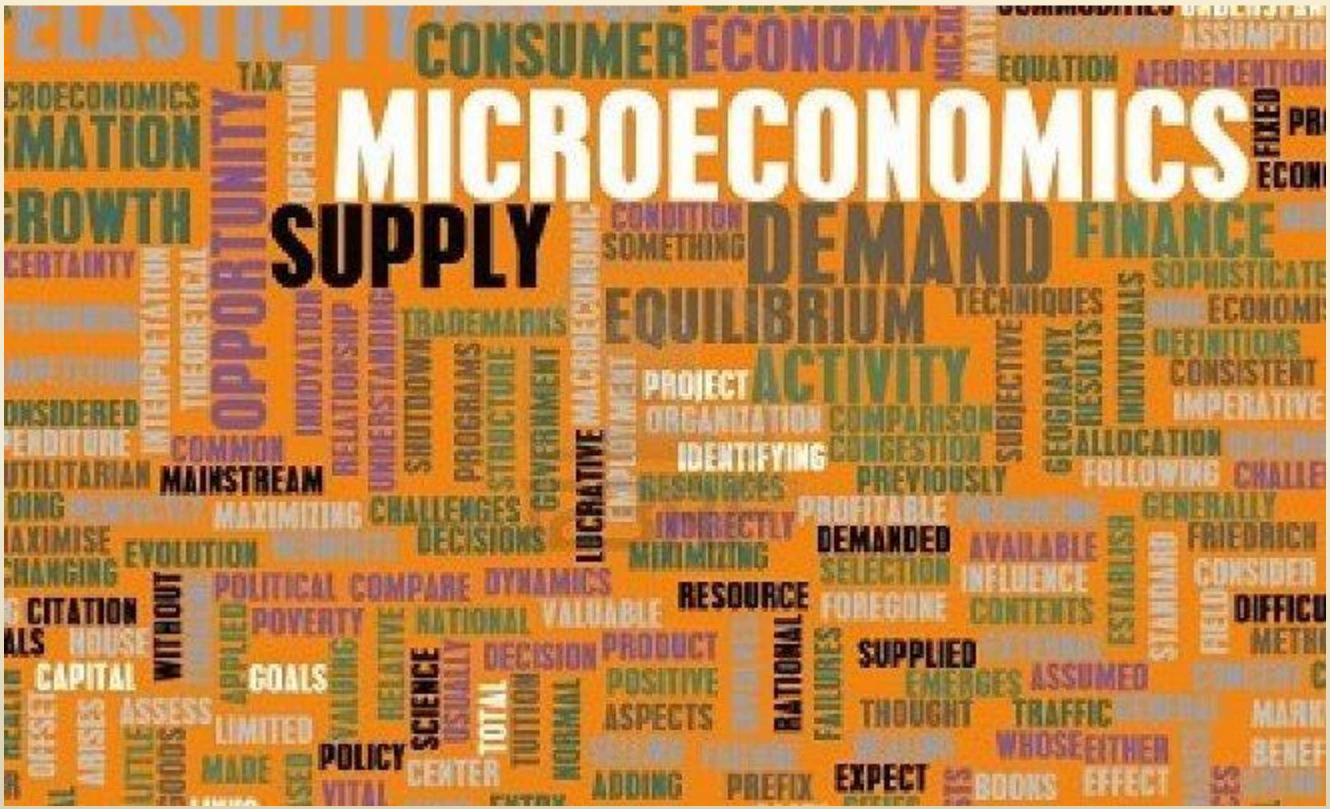
# presentation 16
# labor



## Demand for labor

The demand for labor by firms, which is derived since it is not wanted for itself but for the profits it can generate, is determined by:

- the demand for the product it helps to produce
- the portion of costs it represents
- the availability of substitutes
- the supply of investment capital

Overall, an increase in these factors brings about an increase in the labor hours the firm makes available. However, this does not mean that the wages will increase.

The reason is that the demand for labor is dependent on how the firm uses labor in its productive processes to maximize profits.

Two aspects

Aspect 1:

Firms are eager to generate additional revenue from having increased output thus decide to hire additional labor or increase labor hours.

Aspect 2:

The utilization of additional labor increases MC

Aspect 3

But in this case the firm may not be maximizing its profits. To do so, it needs to lower the wages.

There follows that an increase in the factors affecting the demand for labor bringing about an increase in the labor hours is met with falling wages. Consequently the demand for labor is downward sloping

## Supply for labor

The <u>supply for labor by workers</u> depends on

1. Attitudes towards the workers in any given economy.
2. The number of hours workers are prepared to work.
3. The environment at home.
4. Remuneration they are offered.
5. Desired income or wage level.
6. The size of the population.
7. Self-worth and qualifications.
8. Labor division in society and in the firms.
9. Working conditions and the inherent risks in any type of job.

The supply for labor is upward sloping since an increase in the above factors brings about the increase in the labor hours made available by the workers while pushing for higher wages.