



**M E G A**

**L E C T U R E**

Wage Determination  
and Choice of  
Occupation

IGCSE

# What is Labor Market?

- Just like goods have their markets in any economy where their buyers and sellers interact to make required transactions similarly there are factors of production markets where firms purchase needed resources to undertake desired production.
- Labor Market consists of **potential employees** (workers) and **firms** (employers) that determine the equilibrium of labor market.

# What is Labor Demand?

- Labor Demand is **Derived Demand** that is based upon demand for final goods and services that is produced by labor.
- Labor Demand curve depicts **inverse** relationship with wages. Higher wages result in lower quantity of labor demanded and vice versa.

# What is Labor Demand?

- Labor demand along with labor supply determine equilibrium of labor market.

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# Labor Supply

- Labor Supply is determined by potential workers who are willing to provide their labor services for certain financial compensation.

- Labor Supply has **positive relationship** with wages. Higher wages result in greater quantities of labor supplied and vice versa.

# Labor Market Equilibrium

- Equilibrium in Labor Market exists where Labor Demand curve **interacts** with Labor Supply curve.
- Changes in equilibrium arises because of changes in Labor Demand and/or Labor Supply.

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# Factors Affecting Labor Demand Curve

- There is movement along the curve due to changes in Wages.
- Non-Wage factors cause Labor Demand curve to **shift** right or leftwards.
- Increased demand for final product produced by labor causes labor demand curve to shift rightwards and vice versa.

# Factors Affecting Labor Demand Curve

- Increased price of final product cause labor demand curve to **shift rightwards** and vice versa.
- Increased labor productivity cause labor demand curve to shift rightwards.

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# Factors Affecting Labor Demand Curve

- Higher cost of capital **shifts** labor demand **curve rightwards** and vice versa. Similarly reduced capital productivity shift labor demand curve leftwards and vice versa.

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# Factors Affecting Labor Supply Curve

- Wage changes cause movement along the curve.
- Non-Wage factors cause shifts in Labor Supply curve.
- Increased population that increases labor force causes labor supply curve to shift leftwards and vice versa.

# Factors Affecting Labor Supply Curve

- Increased immigration in any country also positively affect its labor force and hence shifts its labor supply rightwards.
- **Increased fringe benefits** associated with any occupation also cause rightward shift in labor supply curve and vice versa.

# Factors explaining Wage Differential

- Wage Differential refers to difference in wages for different occupations.
- As observed in our daily lives not all individuals earn equal amount of wages / salaries.

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# Factors explaining Wage Differential

- Greater demand for labor in certain occupation assuming **ceteris paribus** (other factors affecting wage being constant) will result in higher wages.

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# Factors explaining Wage Differential

- Similarly lesser labor supply in certain occupations also result in higher wages. For instance professions that **require better academic qualification** will have lesser labor supply than professions that do not require major academic qualification. Supply of doctors will always be less than nurses.

# Why individuals earn different in same occupations?

- Often individuals' wages/salaries differ in similar occupations. Meaning what explains two doctors earning different amounts of money.
- Following factors can explain difference in earning for two individuals in same occupation:

# Why individuals earn different in same occupations?

**1. Experience:** people with more experience are considered more valuable for any organization and therefore firms are willing to pay them more compared to people with less experience.

**2. Individual's productivity:** People who work harder at workplace are more likely to get promoted and by undertaking more tasks and handling greater responsibility are expected to get better financial compensation for their services.



# Why individuals earn different in same occupations?

3. **Firm he / she is working for:** More profitable or bigger firms are likely to better pay their employees as compared to less profitable or smaller firms because they earn and hence can afford to better compensate their employees