

CLAS Econ 1 Review Sheet 8

Opening Questions:

1. Why might a rational worker not increase their hours worked with a wage increase?
2. Why do most high paying jobs require degrees if the skills required to be successful in those roles can be acquired in other ways?
3. Who are the “Suppliers” and “Demanders” in the Labor Market?

Important Definitions (Try to define for yourself first):

- Rational Rule for Employees / Employers =
- 3 Shifters of Labor Demand =
- 3 Labor Supply Decisions =
- Substitution and Income Effect on Labor Supply =
- 4 Shifters of Labor Supply =
- Monopoly/Monopsony =
- 5 Insights from Personnel Economics =

Relate to Today

- In recent years, allegations of poor labor market practices have been placed on Amazon due to their targeting of towns without competition vying for workers. What type of dynamic is at play here?

Practice Problems

1. Paul has to work the night shift answering questions at the front desk of a hotel. Based on these unpleasant conditions, compared to his coworkers who work during the day, Paul's wage will ...

- a) Be lower due to a wage penalty
- b) Be higher due to a wage premium
- c) Be the same, afterall someone will take the job at night, possibly for their own preferences/schedule
- d) None of the Above

2. Illustrate the effect of a binding minimum wage on the labor market for construction workers.

Does a binding minimum wage lead to a surplus or shortage of workers? What does this mean in terms of unemployment?

3. Workers at Space Emporium are unhappy with their working conditions. They decide to gather their voices and request better working standards. What is this an example of? Illustrate the effects of this action on Labor Supply and Demand. What does this do to the equilibrium wage and number of employed workers?

4. Cultural norms shift such that parents place more weight on spending quality time with their children. Show the effect this would have on the labor market. What would be the resulting effects on the wage rate and number of employees?

5. Offices in the Tech industry decide to add new deskscapes with new computers, thus increasing the amount of technology available per worker. What effect would this have on the labor market? How about the wage rate and the number of workers?

6. The government decides to lower income taxes for workers. Illustrate the effect of this decision on the labor supply curve. What happens to the wage and number of employees in the market?

Answers

Important Definitions (Try to define for yourself first):

- Rational Rule for Employees / Employers = For Employees, work until Marginal benefit of leisure equals the wage rate. For Employers, hire more workers until the marginal revenue they bring in equals the wage.
- 3 Shifters of Labor Demand =
 1. Changes in output demand
 2. Capital Stock alterations
 3. Management Techniques and Technological Advancement
- 4 Shifters of Labor Supply =
 1. Potential wages from other jobs.
 2. Taxes on wage
 3. Income support programs
 4. Leisure valuation
- Substitution and Income Effect on Labor Supply =

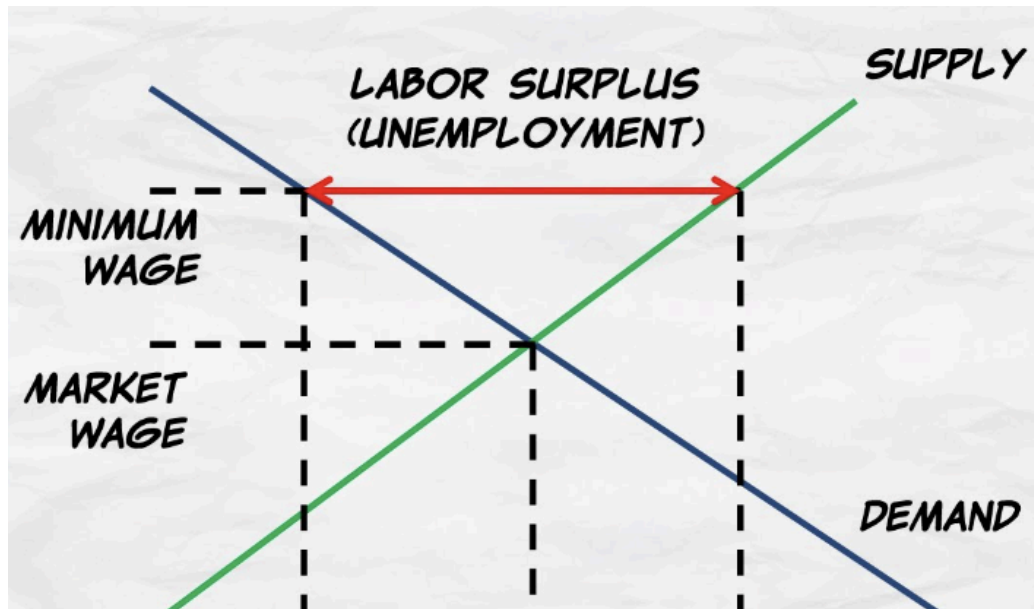
Suppose wage decreases

The Substitution Effect is the part of the worker's decision making that tells them to work less, since the value they get from working decreased.

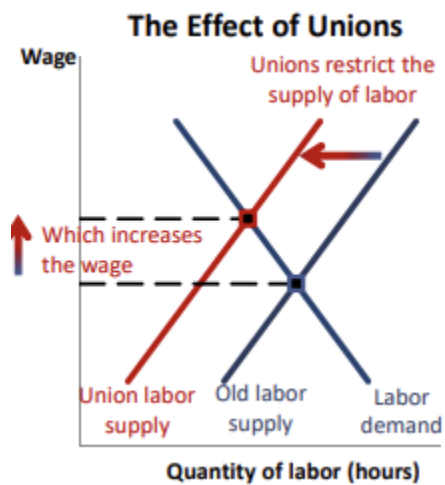
The Income Effect is the part of the worker's decision making that tells them to work more, since they need more hours worked to consume the same amount of goods and services as before.
- 3 Labor Supply Decisions =
 1. How many hours to work
 2. Labor Market vs. Education, retirement, etc.
 3. Which occupation?

- Monopoly/Monopsony = Monopoly - when there is only one supplier in the market.
Monopsony - when there is only one buyer in the market.
- 5 Insights from Personnel Economics =
 1. It is more profitable for firms to offer job-specific skills rather than general skills, to keep the now productive worker in house.
 2. Incentives such as commissions, bonuses, and stock options increase motivation and productivity.
 3. Corporate Culture - Extrinsic factors such as wage and intrinsic factors such as pride can be cultivated through the work environment.
 4. Benefits ranging in value such as tax breaks, health insurance, coffee, and couches all can increase productivity in some way.
 5. Sort by attracting workers best suited for your company based on the benefits you provide. (For example, professional development opportunities may particularly attract employees newer to the workforce trying to build up their resumes).

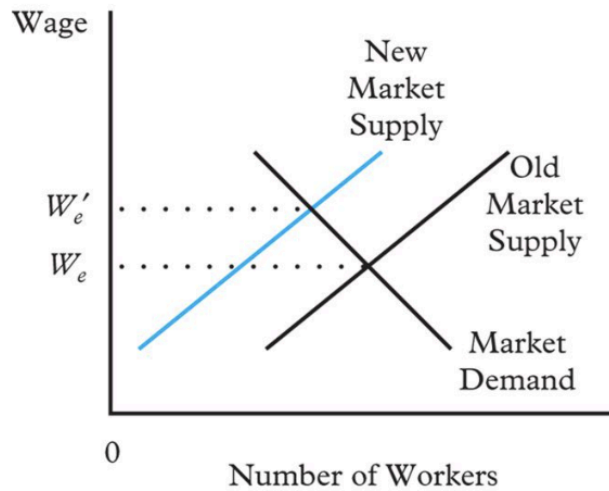
1. B) Compensating Differential pays more to take into account unpleasant working conditions in this case.
2. Wage Up, # of Workers Down



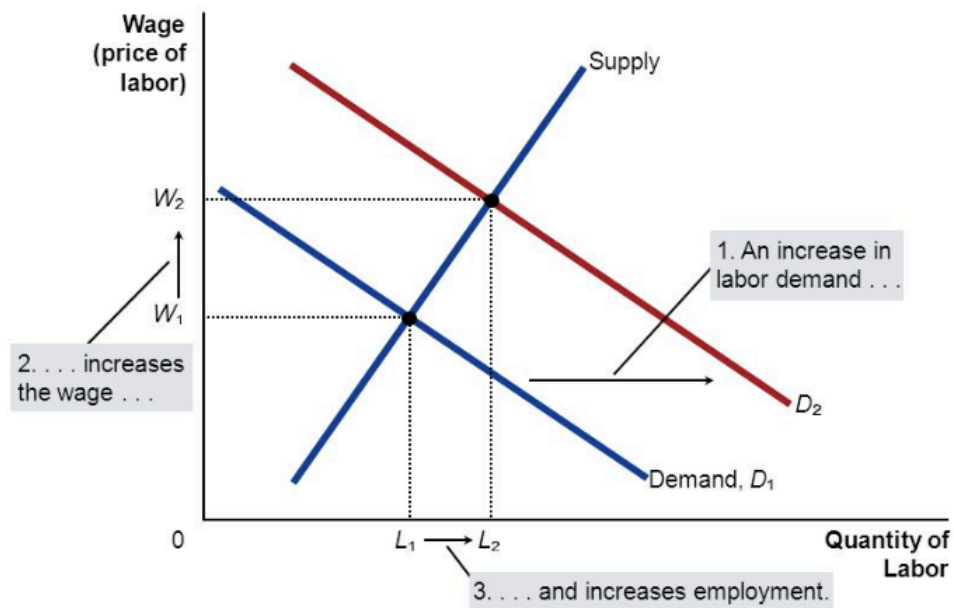
3. Wage Up, # of Workers Down



4. Wage Up, # of Workers Down



5. Wage Up, # of Workers Up



6. Wage Down, # of Workers Up

