

Learning Objectives

Chapter 18

In this chapter you will

- Analyse the labour demand of competitive, profit-maximizing firms
- Consider the household decisions that lie behind labour supply
- Learn why equilibrium wages equal the value of the marginal product of labour
- Consider how the other factors of production—land and capital—are compensated
- Examine how a change in the supply of one factor alters the earnings of all the factors

You should be able to

- Explain why the labour demand curve is the value of the marginal product curve for labour
- Explain why the labour supply curve is usually upward sloping
- Explain why a competitive firm maximizes profit when it hires labour to the point where the wage equals the value of the marginal product of labour
- Demonstrate the similarity between the labour market and the market for other factors of production
- Explain why the change in the supply of one factor alters the value of the marginal product of the other factors