

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
Look at the factors causing a shift in the labour demand curve
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