Exercise walk-through

Labour market forces and government intervention ▪ 8.3

eXercise

You must be able to

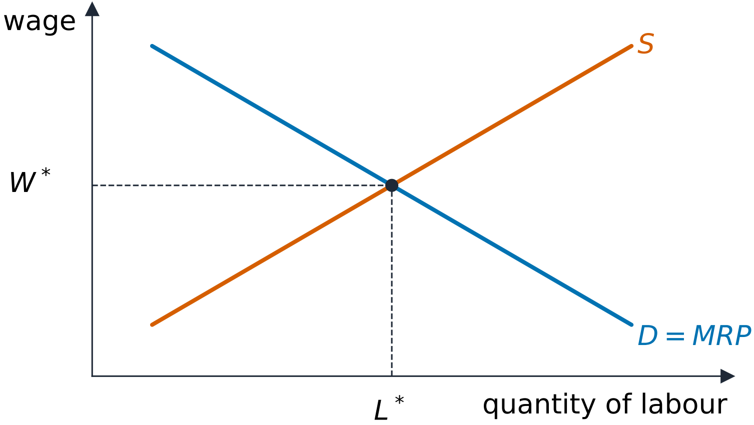
- explain labour demand as a derived demand based on MRP
- draw a competitive labour market and a minimum wage
- analyse monopsony, trade unions and wage differentials

Method — The competitive labour market

- **Demand for labour** = a **derived demand 派生需求** based on the **marginal revenue product 边际收益产品** (MRP).
- **Monopsony 买方垄断**: a single dominant **buyer** of labour → lower wage, fewer hired.
- **Trade union 工会**: can raise the wage above the competitive level (but may cut jobs).
- **Minimum wage 最低工资** above equilibrium → unemployment; but in a monopsony it can raise **both** wage and jobs.

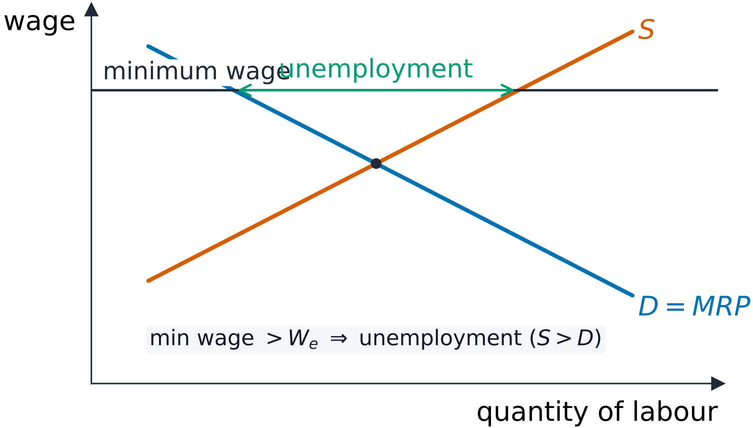
Answer shapes: an **Explain [up to 8]** answer may use a labour-market diagram (AO3); **Discuss [12]** adds a judgement (AO4).

Method — The competitive labour market



The wage and employment are set where labour demand (MRP) meets labour supply

Method — The competitive labour market



A minimum wage above equilibrium creates excess supply of labour — unemployment

Practice 2.1 ▪ 2 marks

Define the term *derived demand*.

Solution 2.1

Method: The competitive labour market

Worked steps

demand for a factor (such as labour) that arises from the demand for the goods it is used to produce (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

Define the term *monopsony*.

Solution 2.2

Worked steps

a labour market with a single, dominant buyer (employer) of labour (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 1 mark

State one reason for a wage differential between two jobs.

Solution 2.3

Method: The competitive labour market

Worked steps

any one of: differences in MRP/productivity; training and qualifications needed; risk or unpleasantness of the work; discrimination (1).

Exam-style 3.1 ▪ 1 mark

The demand for labour is described as a **derived demand** because it depends on:

A the wage rate alone

B the demand for the goods that labour produces

C the number of trade unions

D the minimum wage

Solution 3.1

Method: The competitive labour market

A the wage rate alone

B the demand for the goods that labour produces ✓

C the number of trade unions

D the minimum wage

Worked steps

B. Labour demand is derived from the demand for the goods labour produces.

Exam-style 3.2 ▪ 8 marks

Using a diagram, explain the effect of a minimum wage set **above** the equilibrium wage in a competitive labour market.

Solution 3.2

Method: The competitive labour market

Worked steps

[8] AO1 1 + **AO3 diagram up to 4** (labour demand and supply, minimum wage above W^*, excess supply of labour) + AO2/AO3 up to 3 — above the equilibrium wage, the quantity of labour supplied exceeds the quantity demanded → firms hire fewer workers while more people want jobs → the gap is unemployment; the size depends on the elasticity of labour demand.

Exam-style 3.3 ▪ 12 marks

Discuss whether a national minimum wage is good for an economy.

Solution 3.3

Method: The competitive labour market

Worked steps

[12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** raises low pay, reduces poverty and in-work inequality, and can raise both pay and jobs in a monopsony. **Against:** in a competitive market it can cause unemployment, raise firms' costs and prices, and may push some work into the informal economy. Judgement: the effect depends on the market structure and how high the wage is set — modest minimums help, but very high ones risk job losses.