Labour markets and government intervention

Edexcel IAL Economics WEC13 sections 3.3.4-3.3.5 full package

Topic 6 at a glance

> Wages come from supply and demand; governments step in where markets fail.

- WEC13 spec sections 3.3.4 and 3.3.5.
- One labour model: equilibrium (200, 8).

Labour demand is derived

> Firms hire workers because people buy what they make.

- MRP $=$ MP $\times$ product price.
- Elastic if capital substitutes easily.

What shifts labour supply

Influence	**Effect on supply**
population, **net migration**	more workers available
income tax rates	lower tax, more incentive
welfare benefits	lower benefits, more incentive
regulations, trade unions	can restrict entry

Equilibrium, drawn

Supply meets demand at 200 workers and a wage of 8.

- $4 + 0.02L = 16 - 0.04L$.
- So $0.06L = 12$: $L = 200$, $W = 8$.

Shifts and the public sector

Demand shifts

product demand up

MRP right

wage and jobs rise

Supply shifts

migration, benefit reform

supply moves

wage moves the other way

Two kinds of immobility

Geographical	Occupational
housing costs	training costs
family ties	specific skills
poor information	discrimination

Intervening in product markets

Aim	**Measures**
control monopolies	RPI − X caps, profit rules, merger law
promote competition	**deregulation**, **privatisation**, tendering
protect suppliers, staff	employment law, monopsony limits

Why regulation can fail

Capture, missing information, thin resources and weak powers.

- The regulator knows less than the firm.
- Name the limit, then weigh it.

A minimum wage, drawn

A floor of 9: 250 want work, firms hire 175, so 75 are unemployed.

- Workers who keep jobs earn more.
- With a monopsonist, jobs can rise.

A maximum wage, drawn

A cap of 6: firms want 250, only 100 supply, a shortage of 150.

- Rare: public-sector pay caps.
- Vacancies go unfilled.

Other labour-market tools

Tool	What it does
direct taxes	raise the cost of employing
training, relocation grants	reduce immobility
housing supply	eases moving for work
anti-discrimination law	fair access to jobs

Data response: the HGV driver shortage

1. **Pay** £32,000 to £36,000: $+12.5\%$
2. **Drivers** 300,000 to 306,000: $+2\%$
3. **Elasticity** $2 \div 12.5 = 0.16$

Decision

0.16: a big pay rise attracts few extra drivers.

Data response: the shortage, drawn

Supply shifts left: a higher wage and fewer drivers.

- EU drivers left; tests were cancelled.
- **Derived demand** for deliveries stayed high.

Data response: visas or training?

Temporary visas
quick in a crisis
too few, few applicants
causes unchanged

Training
raises supply for good
makes supply more elastic
takes months

Check yourself

Question	**Answer**
Equilibrium of the model?	200 workers at 8
Minimum wage of 9?	175 hired, 75 unemployed
Maximum wage of 6?	shortage of 150
Pay +12.5%, drivers +2%?	elasticity 0.16
Regulator serves the firm?	**regulatory capture**