Economics II

Factors markets

Part I.
Factor markets specifics.
Demand in a perfectly competitive labor market.

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Introduction

1 Company capital and labor demand specifics

2 Demand in a perfectly competitive labor market

2.1 Company demand

2.1.1 Work demand in the short run

2.1.2 Work demand in the long run

2.1.3 Factors affecting firms demand

2.1.4 Market demand

Demand firms selling their output on a perfectly competitive market

- **We understand dual individual labor supply:**
  - Job offer one company
  - Offer work of one person

- **One company supply:**
  - Perfectly elastic
  - Each additional unit of work still have the same wage rate (w)
  - That's why $\mathbf{MFC_L = AFC_L = S_L = w}$

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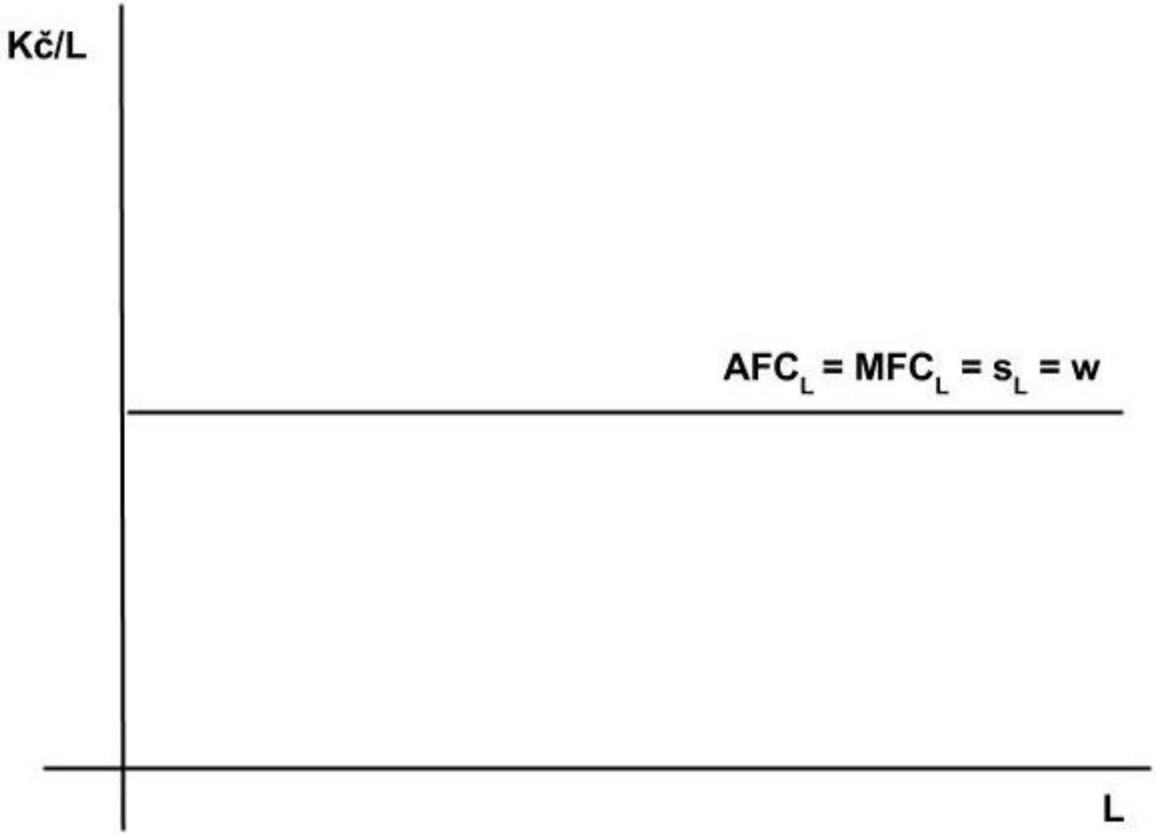
Individual job supply



Company demand for work in SR

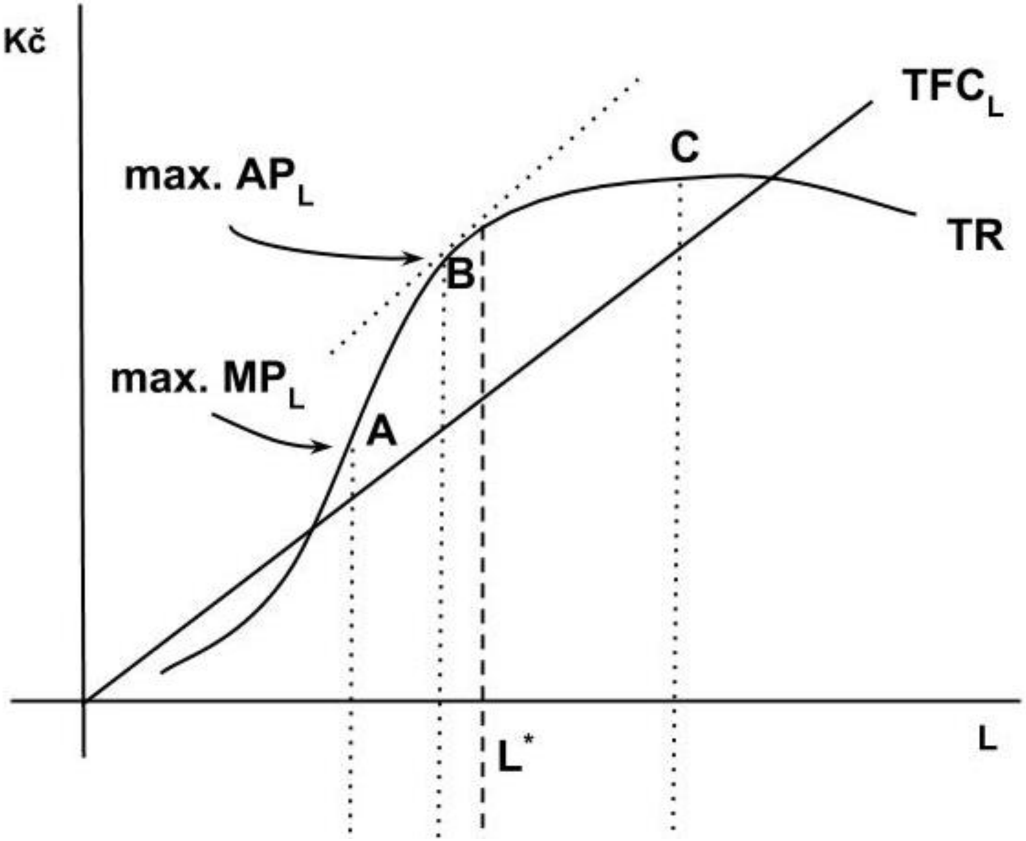
- The company hires such amount of work trying to maximize profit.

$$MRP_L = MFC_L \;, \qquad \text{resp. } MR_A \,.\, MP_L = MFC_L$$

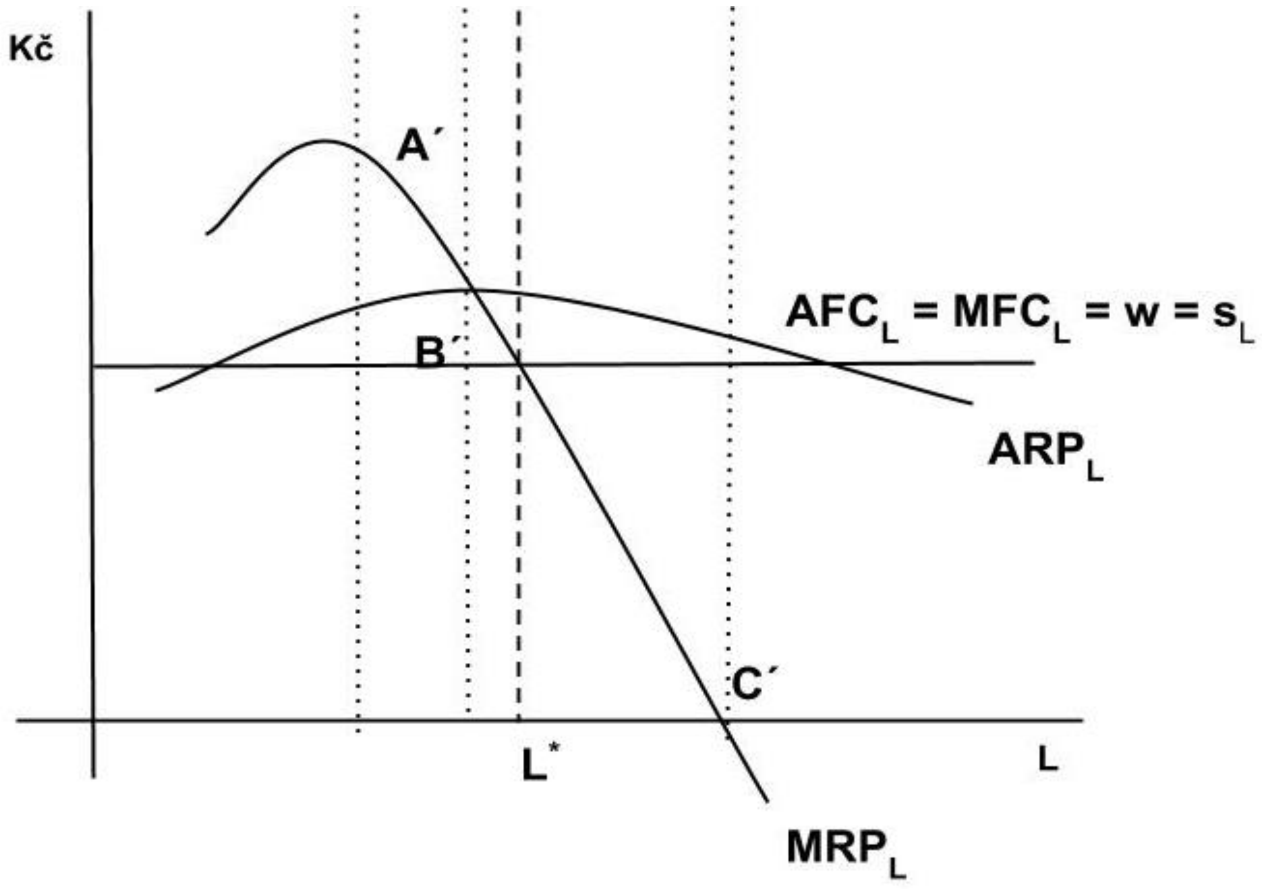
- In the perfectly competitive market the following applies:
  - $MR_A = P_A$
  - $MFC_L = W$;

$$P_a \,.\, MP_L = W$$

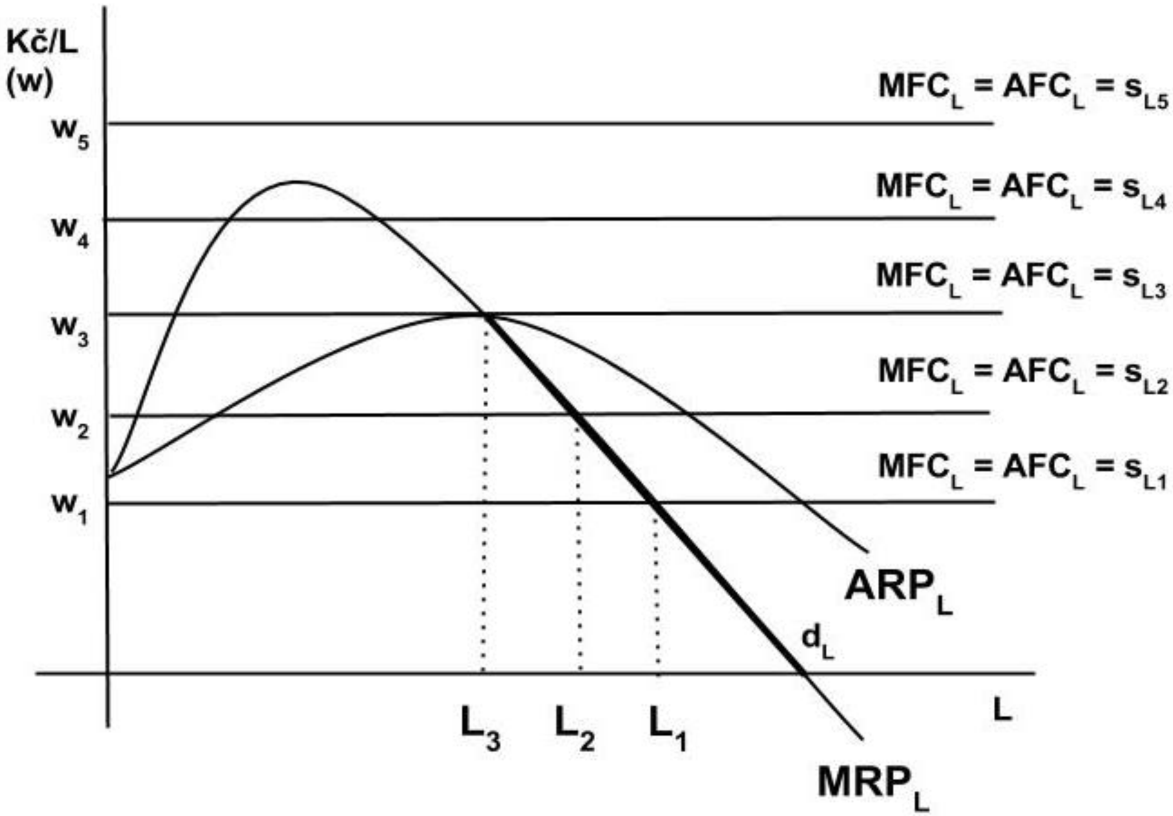
The optimal amount of labor absorbed by the firm in SR (1)



The optimal amount of labor absorbed by the firm in SR (2)



Demand in SR



Kč/L
(w)
w5
w4
w3
w2
w1
MFCL = AFCL = sL5
MFCL = AFCL = sL4
MFCL = AFCL = sL3
MFCL = AFCL = sL2
MFCL = AFCL = sL1
ARPL
dL
L3
L2
L1
L
MRPL

Company demand for work in SR

- The company will produce until then:

$$TR \geq VC$$

- We will adjust relationship:

$$TR \geq w \,.\, L$$

$$ARP_L \,.\, L \geq w \,.\, L$$

$$\mathbf{ARP_L \geq w}$$

Demand in LR

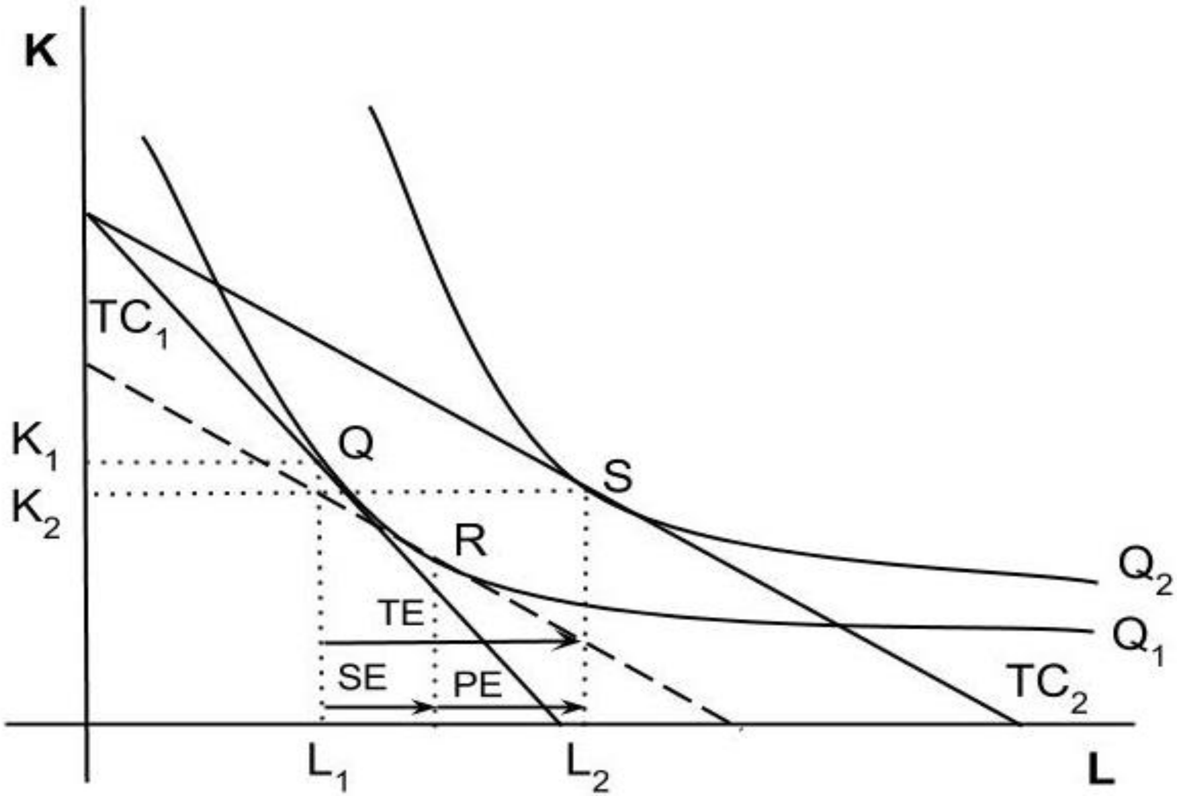
- All inputs are variable (L and K);

- decrease in wage rates **w** initiates:

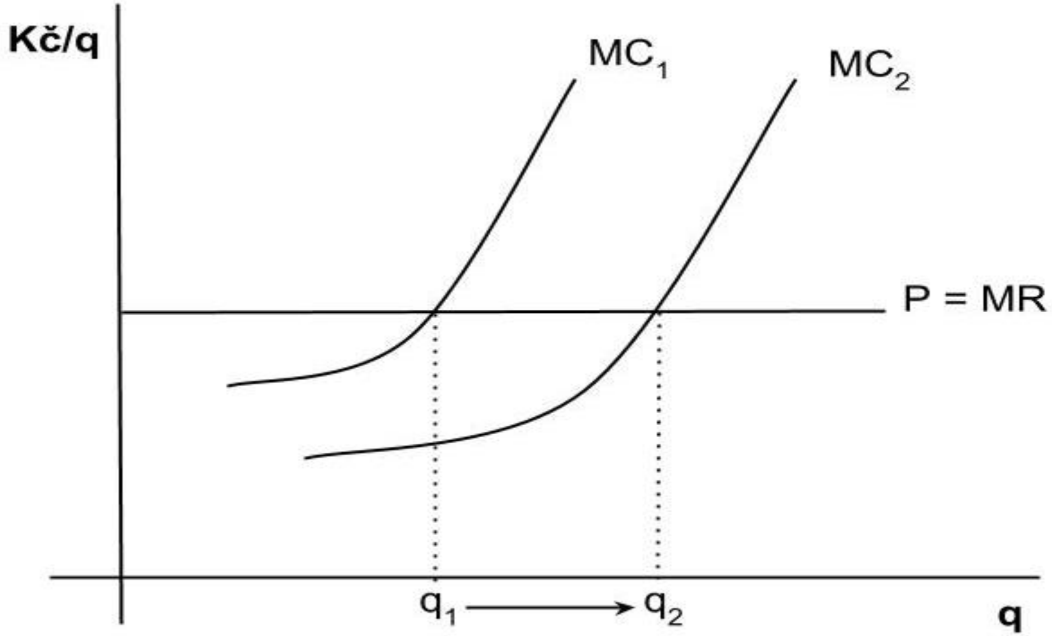
1. Substitution effect (SE)

2. Production effect (PE)

Substitution and the production effect declining wages



Cost effect – declining wages



Thank you for your attention

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