

**PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI**

LESSON NOTES

Subject: Economics

Year/Level: 13

Week 21

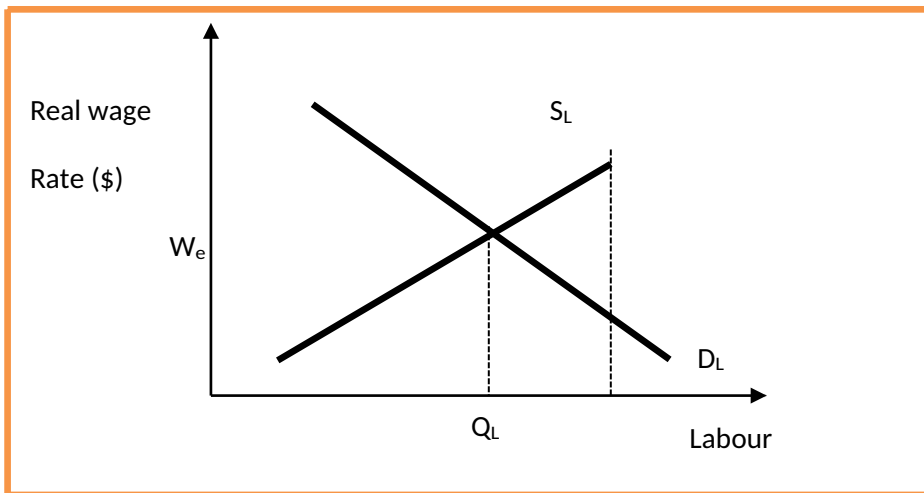
Strand	3	Macroeconomics
Sub Strand	3.3	Labour market
Content Learning Outcome	Explore evolving labour markets in the Fiji economy	

Greetings to all....

In the last lesson we looked at the labour market in relation to demand and supply. Now let's construct the labour market.

Lesson notes (copy notes and graphs in your note book)

Graphical illustration: Labour Market



Graph showing Demand and Supply of Labour

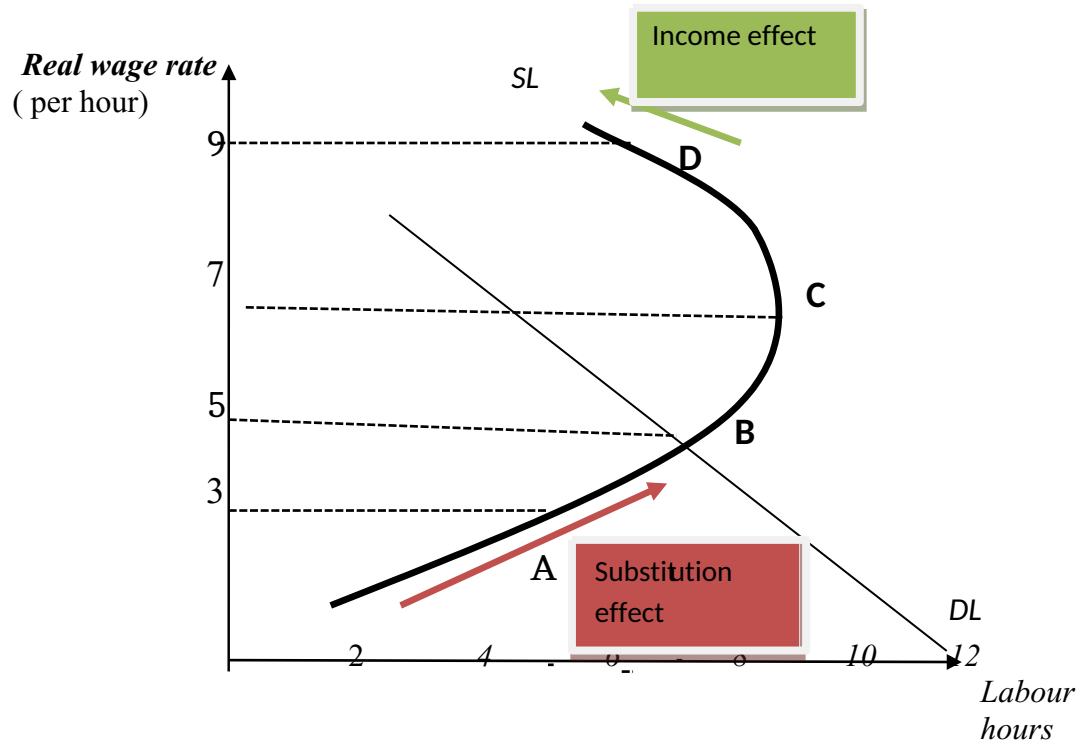
(Source: Senior Economics Workbook)

Reason for Unusual Supply curve of labour /Backward bending :

1. **Income effect** (worker prefers leisure to work i.e. as wage rate increases, the worker prefers leisure to work thus supply for labour declines)
2. **Substitution effect** (worker prefers work to leisure i.e. as wage rate increases , worker is willing to work more).

Graphical illustration:

Figure 3.13: Graph Showing Backward bending supply curve



A backward-bending supply curve of labour, is a **graphical device showing a situation in which as real wages increase beyond a certain level**, people will substitute leisure for paid work-time and so higher wages lead to a decrease in the labour supply.

(Note: Above equilibrium income effect is greater while below equilibrium substitution effect is greater)

Nominal and real wage rate

Nominal wage rate is the current wage rate the worker is receiving without any adjustment whereas **real wage rate** is wage at constant price and is adjusted for changes in price level and it gives indication of purchasing power of wages.

This means real wage can be used to find quantity of goods and services that wage can afford to buy.

$$\text{Real wage rate (w/p)} = \frac{\text{Nominal wage rate (w)}}{\text{Price level (p)}}$$

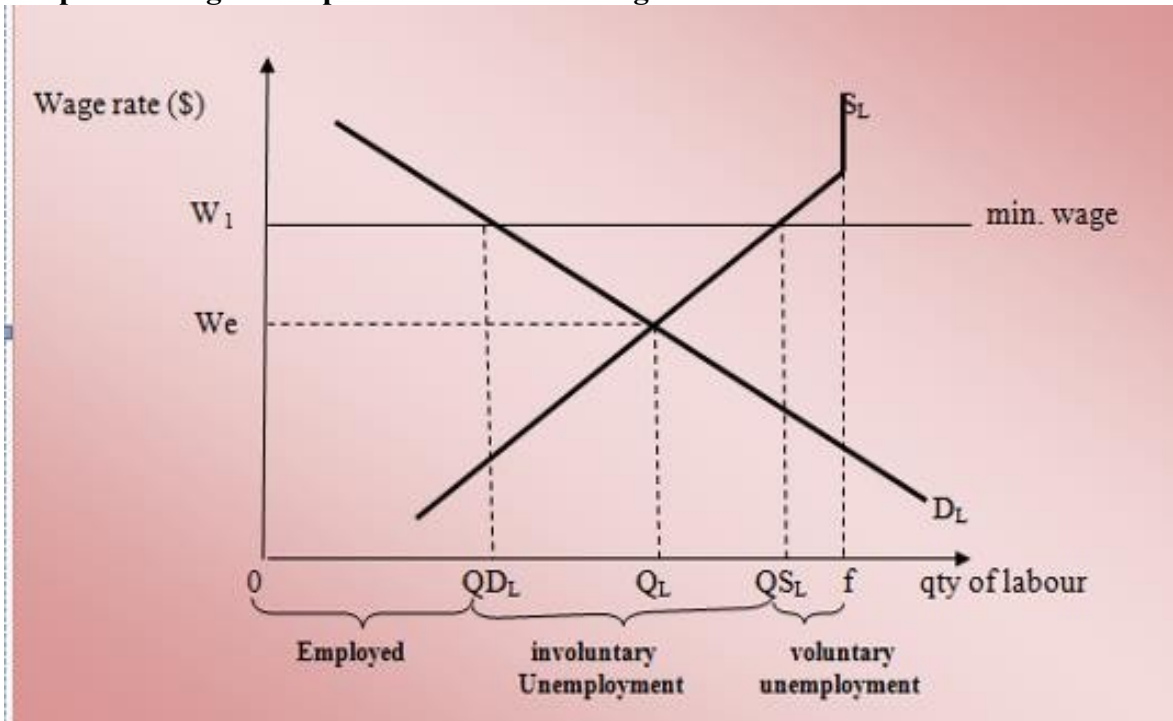
Government intervention in labour market

When the equilibrium wage rate is below the subsistence level the government intervenes to impose *minimum wage rate*.

A minimum wage rate is the lowest remuneration that employers may legally pay to workers. Equivalently, it is the price floor below which workers may not sell their labor. The minimum wage rate is fair and equitable ensuring the minimum welfare needs of consumers is satisfied.

Fiji's new minimum wage of \$2.68 per hour announced by the government came into force on August 1- 2017. The National Minimum Wage (NMW) Regulations had been gazette and all relevant employers adjust their workers' wage levels and employment conditions to comply with the NMW Regulations and the Employment Relations Promulgation 2007 (ERP).

Graph Showing the Impacts of Minimum Wage Rate on Labour Market



(Source: www.google.com.au)

Assume that minimum wage rate is imposed at W_1 . The effect of the minimum wage rate on labour market is as follows:

- Initial stage, D_L and S_L equate to determine the market wage which is at W_e .
- At W_e the equilibrium quantity of labour employed is Q_L . At equilibrium condition there is 0 involuntary unemployment and voluntary employment is full employment (f) minus Q_L . (voluntary employment = $f - Q_L$)
- At minimum wage rate W_1 :
 - ❖ Employment has decreased from Q_L to Q_{D_L}
 - ❖ **Involuntary unemployment** has increased from 0 (nothing at all) to Q_{S_L} minus Q_{D_L} .
 - ❖ **Voluntary unemployment** has decreased from $(f - Q_L)$ to $(f - Q_{S_L})$.

Note:

1. **Involuntary unemployment** –occurs when an individual is willing to work at the given wage rate but is unable to find a suitable job.

2. Voluntary unemployment – occurs when an individual is willing to work but do not accept the job unless wage rate increases.

We will discuss the labour market in our next session....

Stay safe....