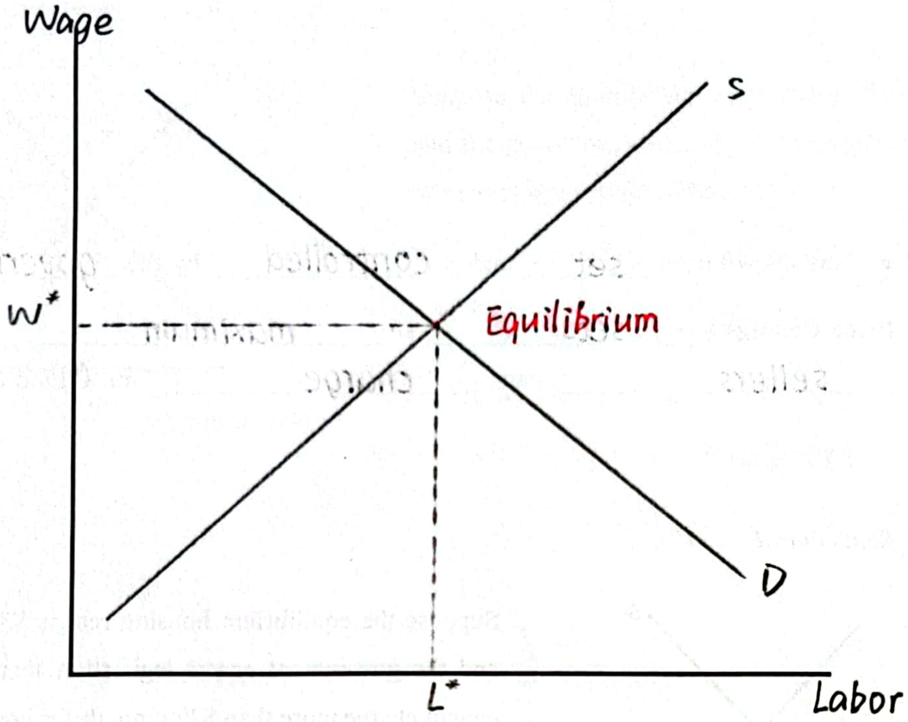
Principles of Economics (Spring 2024)
Lecture 6
Labor Market and Price Controls

Part I

Labor Market – The market for the trading of labor services.

- The price of labor services is called wage.



- The demand curve for labor is downward-sloping – this reflects the fact that at lower wages, employers are willing to hire more workers.
- The supply curve for labor is upward-sloping – this reflects the fact that at higher wages, more workers are willing to work.
- Equilibrium wages are determined by conditions of supply and demand in labor markets.

- **Labor Force** – The sum of persons over the age of 16 with jobs and those who do not have ~~(a job)~~ a ~~(a)~~ job currently but are actively seeking one.

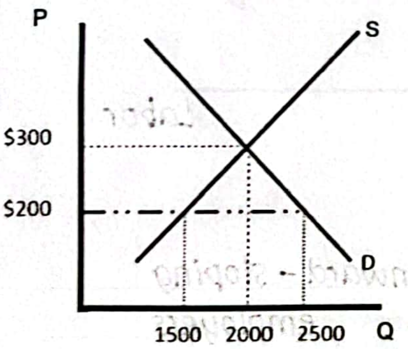
- **Unemployed Person** – A member of the labor force who does not have a job, but has actively saught employment during the previous 4 weeks.

Part II

Price Controls – Prices set and controlled by the government.

- **Price Ceilings** – sets a maximum price that sellers can charge for a good or service.

Example 1: Rent control



Suppose the equilibrium housing rent is $300/month, and the government enacts legislation that landlords cannot charge more than $200/month for housing rent.

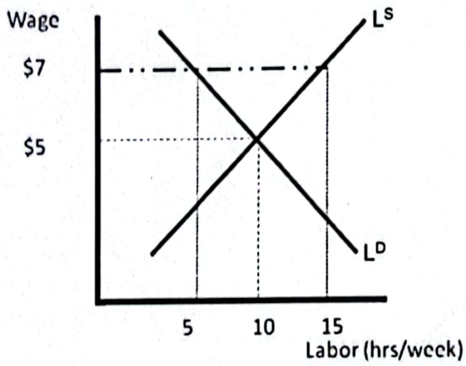
What happens at this new price?

A shortage of 1000 units of housing

- o If the price ceiling is set below the equilibrium price price, quantity demanded increases and quantity supplied declines, which results in a shortage.
- o If the price ceiling is set above the equilibrium price price, it has no effect on the market.

- **Price Floors –** Requires a minimum price to be paid for a good or service.

Example 2: Minimum wage



Suppose the equilibrium wage rate is $5/hour and the government imposes a law requires the minimum wage to be $7/hour.

What happens at this new wage level?

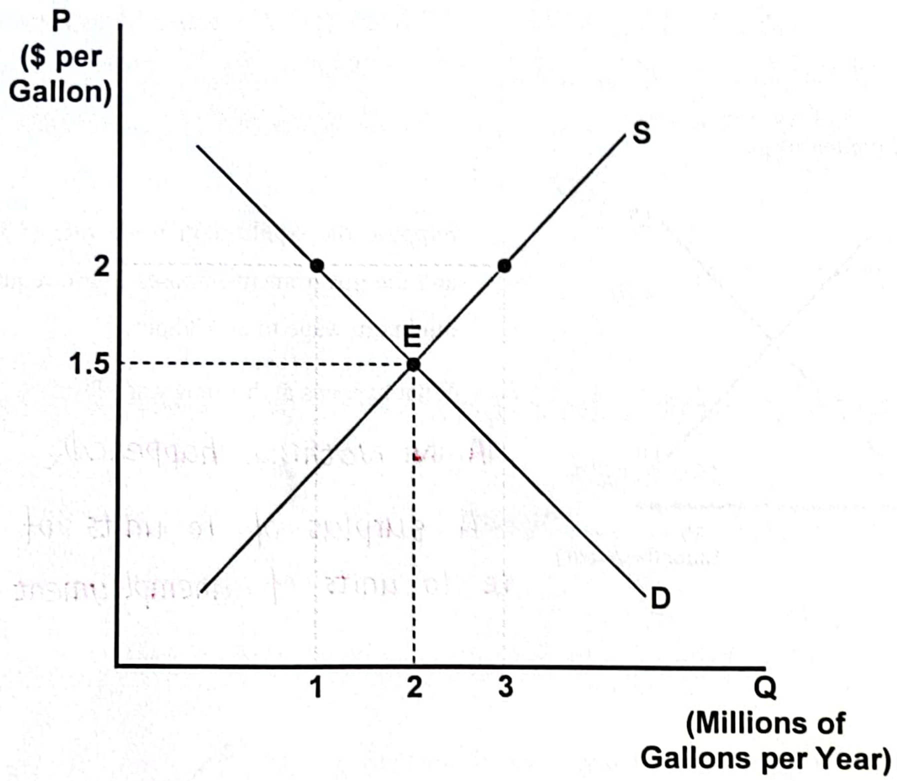
(A) (N) Nothing happened) ×

A surplus of 10 units of Labor

i.e. 10 units of unemployment

Example 3: Agricultural price supports

Suppose the equilibrium price for milk is $1.5 per gallon. The government imposes a law requires the minimum price for milk to be $2 per gallon. What happens at this new price?



- There is a surplus of 2 million gallons of milk, so the government has to purchase the surplus commodities to keep them off the market
  ⇒ Tax payers must pay the cost of buying surplus commodities
  ⇒ In this case, the cost is $ 2 × 2 million = $ 4 million
- Consumers pay higher prices
- Producers enjoy higher incomes

Price floor > equilibrium ⇒ surplus ⇒ government buy them and distribute them to low-income group
⇓
stable society

- If the price floor is set above the equilibrium price, quantity supplied increases and quantity demanded decreases / declines, which results in a surplus.
- If the price floor is set below the equilibrium price, it has no effect on the market.
  - For the minimum wage example, if the minimum wage is below the equilibrium wage, employers who try to pay the minimum wage will not succeed in hiring workers.