

The Power of Microeconomics

Lecture Nine:
The Labor Market and Wage Determination



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Introduction

- Here are a couple of questions to ponder as we begin our analysis of the labor market:
 1. Why do sports stars earn more than the president of the United States?
 2. Why does a college graduate earn substantially more than a high school dropout?
 3. Why do doctors earn 15 to 20 times more than lifeguards even though both are saving lives?

These Are Important Questions

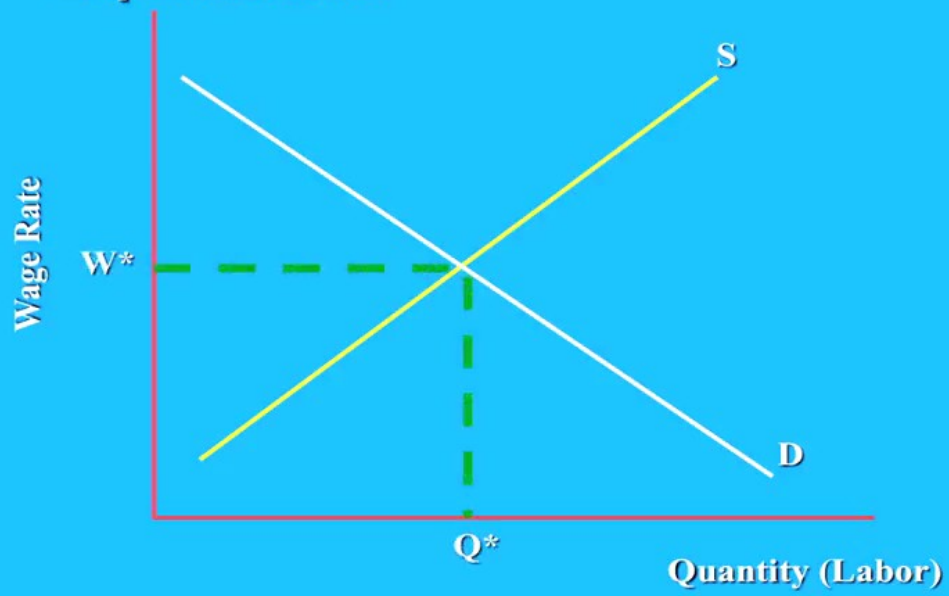
- The wages you will earn in your lifetime will likely be the single most important determinant of your own economic welfare.



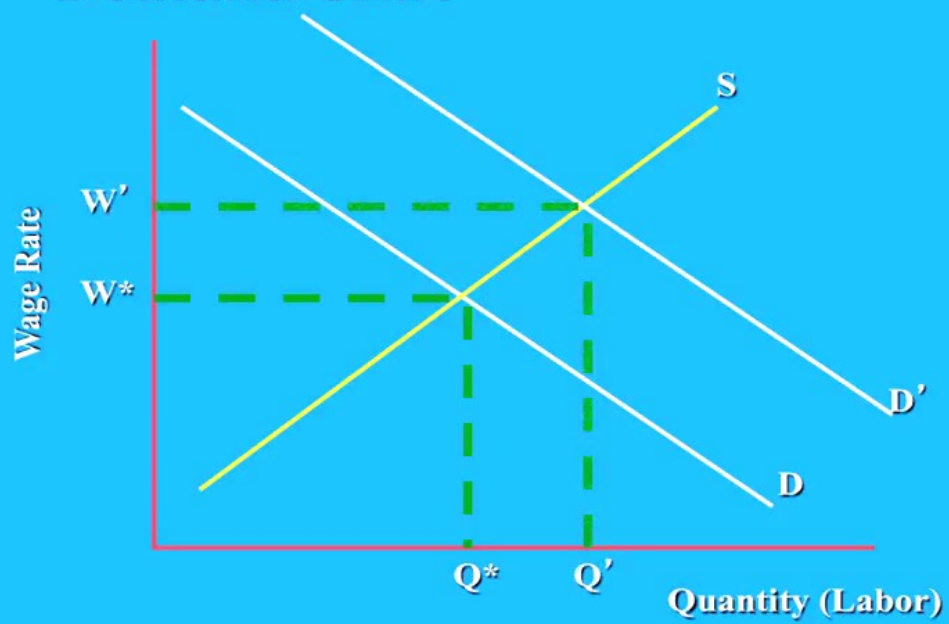
What Determines the Wage Rate?

- Why might the wage rate rise or fall?
- And let's try to answer that question with the help of our old friends, supply, demand, and equilibrium.

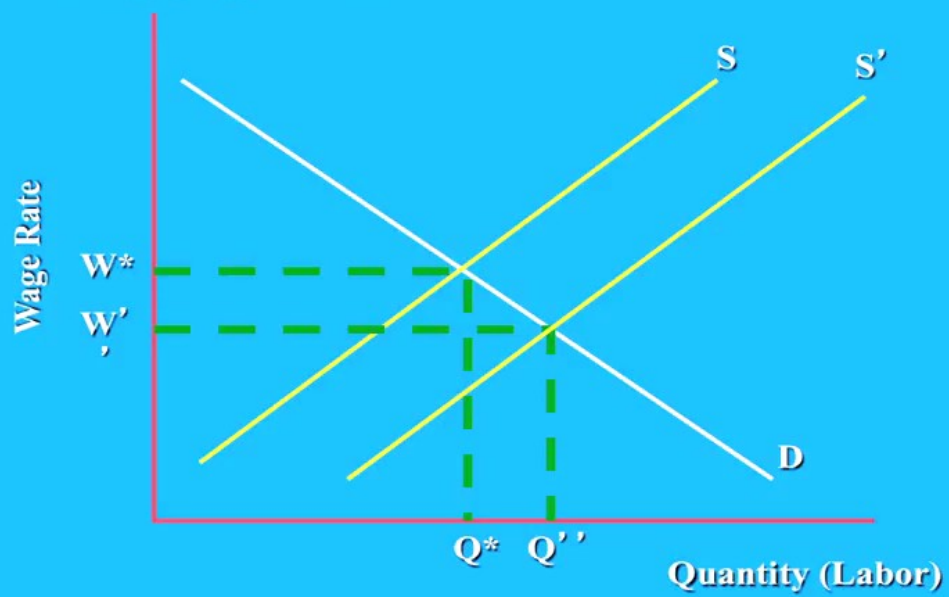
Equilibrium



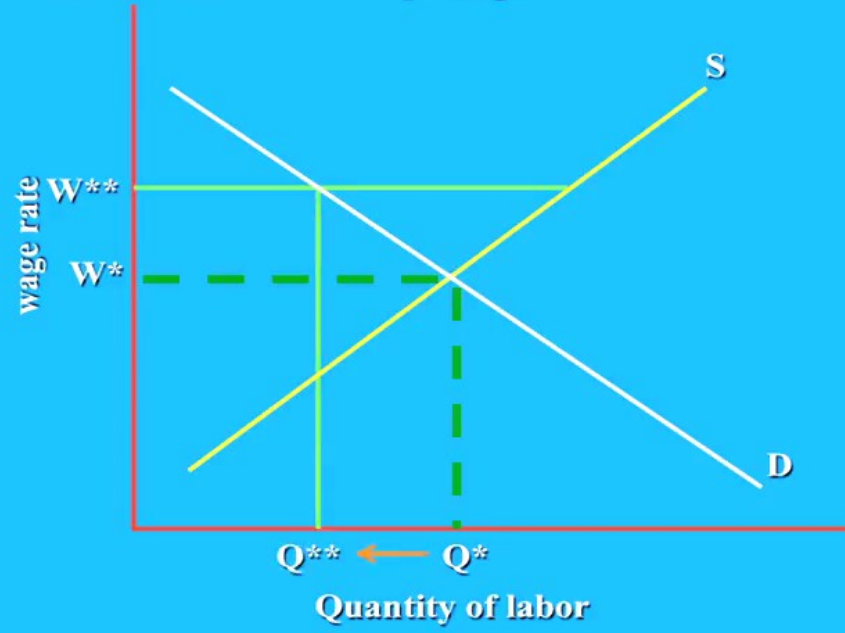
Demand Shift



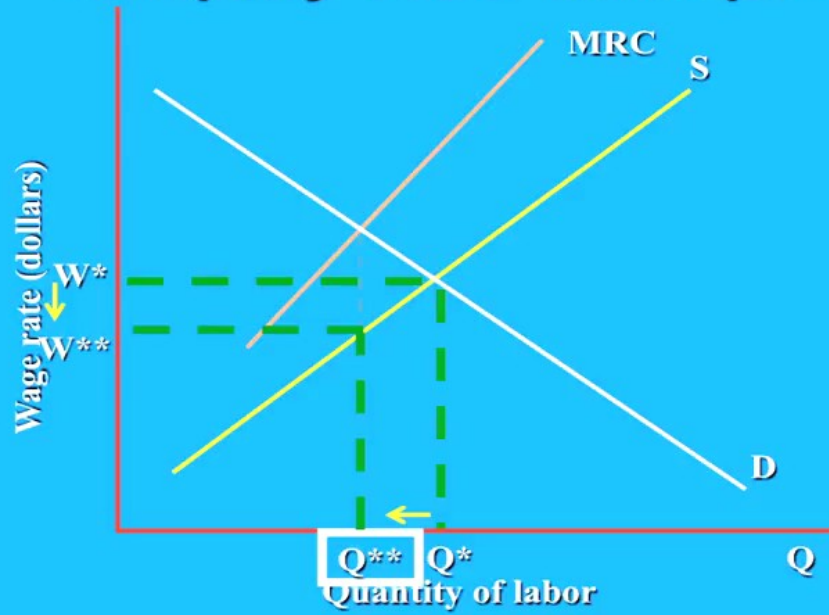
Supply Shift



Union Monopoly



“Company Town” Monopsony



That's The Overview

- Our job now is to come to better understand each of the key elements of the labor market that I have outlined.

