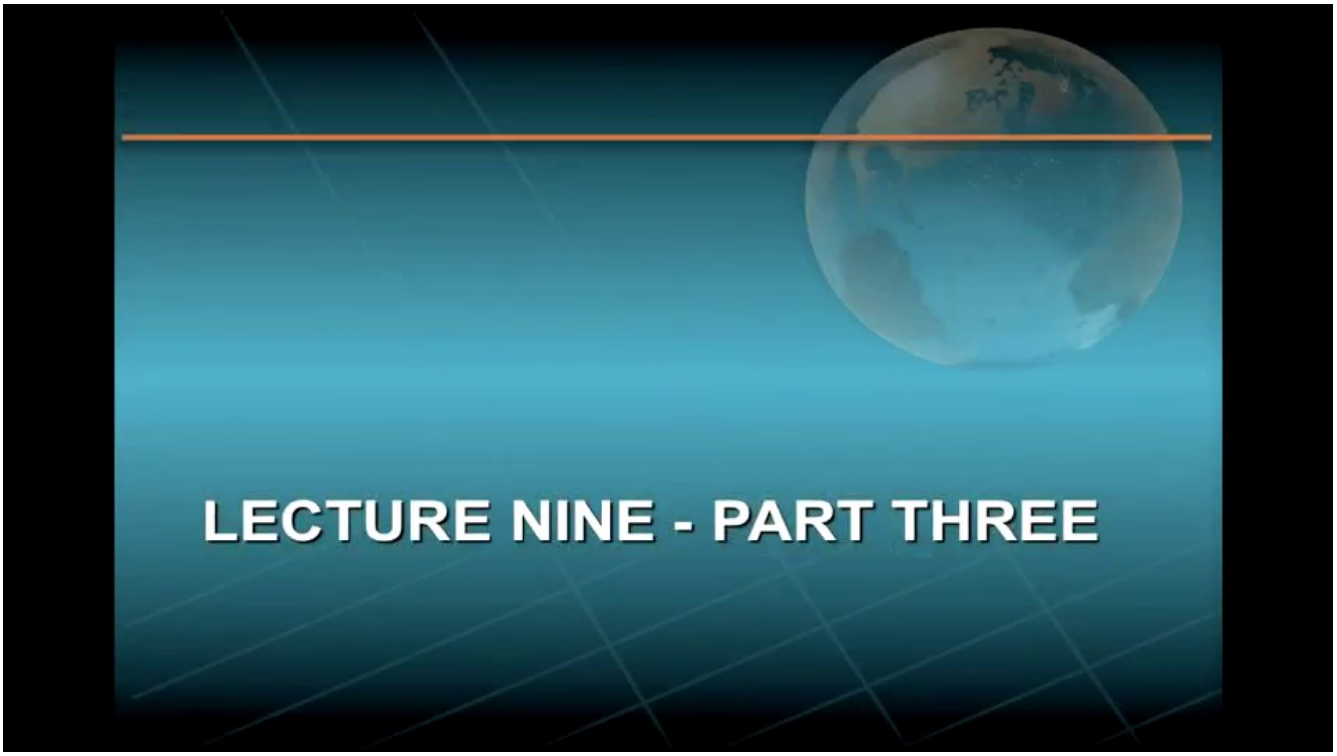
LECTURE NINE - PART THREE

Productivity, Wages and Product Prices

1. It should be clear from this discussion that if your productivity increases, so, too, should your wage.
2. By the same token, if the price of the product that you are helping to produce falls, you are likely to see your wages fall as well.

Product Prices and Wages

- From our earlier lessons on supply and demand, we know how prices might change in the product market.
- The demand curve for both eggs and bacon might shift inward after an article in the Journal of Medicine links their consumption to increased heart disease.
- This would drive down prices and wages in the egg and bacon industries.

Productivity and Wages

- How might a worker's productivity or marginal productivity change and thereby change his/her wages?
- There are a number of important influences.
- The most important are:
  1. The amount of capital and natural resources
  2. The state of the technology
  3. The quality of the labor itself

More Is Better

- From this list of productivity-boosters, we can see why American workers are so much more productive – and earn higher wages -- than workers from many other nations.

Example

- The United States is richly endowed with natural resources ranging from fertile farmland and mineral resources such as oil, coal, and uranium to sources of industrial power such as hydroelectric dams.
- At the same time, American workers have large amounts of capital to work with – on average, over $50,000 of plant and equipment per person.

Other Factors

- It’s not just that Americans have more capital equipment to work with than many of their counterparts.
- They also have more technologically superior machinery as well as more advanced management and work methods.

Labor Supply

- As we saw earlier, if the labor supply curve shifts, then wages can rise or fall.
- The three major determinants of labor supply are
  1. Labor force participation
  2. Hours worked
  3. Rate of immigration