## Key Concepts and Summary

### 14.1 The Theory of Labor Markets

A firm demands labor because of the value of the labor’s marginal productivity. For a firm operating in a perfectly competitive output market, this will be the value of the marginal product, which we define as the marginal product of labor multiplied by the firm’s output price. For a firm which is not perfectly competitive, the appropriate concept is the marginal revenue product, which we define as the marginal product of labor multiplied by the firm’s marginal revenue. Profit maximizing firms employ labor up to the point where the market wage is equal to the firm’s demand for labor. In a competitive labor market, we determine market wage through the interaction between the market supply and market demand for labor.

### 14.2 Wages and Employment in an Imperfectly Competitive Labor Market

A monopsony is the sole employer in a labor market. The monopsony can pay any wage it chooses, subject to the market supply of labor. This means that if the monopsony offers too low a wage, they may not find enough workers willing to work for them. Since to obtain more workers, they must offer a higher wage, the marginal cost of additional labor is greater than the wage. To maximize profits, a monopsonist will hire workers up to the point where the marginal cost of labor equals their labor demand. This results in a lower level of employment than a competitive labor market would provide, but also a lower equilibrium wage.

### 14.3 Market Power on the Supply Side of Labor Markets: Unions

A labor union is an organization of workers that negotiates as a group with employers over compensation and work conditions. Union workers in the United States are paid more on average than other workers with comparable education and experience. Thus, either union workers must be more productive to match this higher pay or the higher pay will lead employers to find ways of hiring fewer union workers than they otherwise would. American union membership has been falling for decades. Some possible reasons include the shift of jobs to service industries; greater competition from globalization; the passage of worker-friendly legislation; and U.S. laws that are less favorable to organizing unions.

### 14.4 Bilateral Monopoly

A bilateral monopoly is a labor market with a union on the supply side and a monopsony on the demand side. Since both sides have monopoly power, the equilibrium level of employment will be lower than that for a competitive labor market, but the equilibrium wage could be higher or lower depending on which side negotiates better. The union favors a higher wage, while the monopsony favors a lower wage, but the outcome is indeterminate in the model.

### 14.5 Employment Discrimination

Discrimination occurs in a labor market when employers pay workers with the same economic characteristics, such as education,experience, and skill, are paid different amounts because of race, gender, religion, age, or disability status. In the United States, female workers on average earn less than male workers, and Black workers on average earn less than White workers. There is controversy over to which discrimination differences in factors like education and job experience can explain these earnings gaps. Free markets can allow discrimination to occur, but the threat of a loss of sales or a loss of productive workers can also create incentives for a firm not to discriminate. A range of public policies can be used to reduce earnings gaps between men and women or between White and other racial/ethnic groups: requiring equal pay for equal work, and attaining more equal educational outcomes.

### 14.6 Immigration

The recent level of U.S. immigration is at a historically high level if we measure it in absolute numbers, but not if we measure it as a share of population. The overall gains to the U.S. economy from immigration are real but relatively small. However, immigration also causes effects like slightly lower wages for low-skill workers and budget problems for certain state and local governments.