

Figure 14.1 What determines incomes? In the U.S., income is primarily based on one's value to an employer, which depends in part on education. (Credit: modification of work by AFL-CIO America's Unions/Flickr Creative Commons and COD Newsroom/Flickr Creative Commons)

Chapter Objectives

In this chapter, you will learn about:

* The theory of labor markets
* How wages are determined in an imperfectly competitive labor market
* How unions affect wages and employment
* How labor market outcomes are determined under Bilateral Monopoly
* Theories of Employment Discrimination, and
* How Immigration affects labor market outcomes

## Introduction to Labor Markets and Income

Bring It Home

The Increasing Value of a College Degree

Working your way through college used to be fairly common in the United States. According to a 2015 study by the Georgetown Center on Education and the Workforce, 40% of college students work 30 hours or more per week.

At the same time, the cost of college seems to rise every year. The data show that between the 2000–2001 academic year and the 2019–2020 academic year, the cost of tuition, fees, and room and board has slightly more than doubled for private four-year colleges, and has increased by a factor of almost 2.5 for public four-year colleges. Thus, even full time employment may not be enough to cover college expenses anymore. Working full time at minimum wage—40 hours per week, 52 weeks per year—earns $15,080 before taxes, which is substantially less than the more than $25,000 estimated as the average cost in 2022 for a year of college at a public university. The result of these costs is that student loan debt topped $1.3 trillion this year.

Despite these disheartening figures, the value of a bachelor’s degree has never been higher. How do we explain this? This chapter will tell us.

In a market economy like the United States, income comes from ownership of the means of production: resources or assets. More precisely, one’s income is a function of two things: the quantity of each resource one owns, and the value society places on those resources. Recall from the chapter on [Production, Costs, and Industry Structure](http://openstax.org/books/principles-microeconomics-3e/pages/7-introduction-to-production-costs-and-industry-structure), each factor of production has an associated factor payment. For the majority of us, the most important resource we own is our labor. Thus, most of our income is wages, salaries, commissions, tips and other types of labor income. Your labor income depends on how many hours you work and the wage rate an employer will pay you for those hours. At the same time, some people own real estate, which they can either use themselves or rent out to other users. Some people have financial assets like bank accounts, stocks and bonds, for which they earn interest, dividends or some other form of income.

Each of these factor payments, like wages for labor and interest for financial capital, is determined in their respective factor markets. For the rest of this chapter, we will focus on labor markets, but other factor markets operate similarly. Later in Chapter 17 we will describe how this works for financial capital.