Marginal Product of Labor

What is it and why is it important?

Form 1 – Increasing Marginal Returns

- When a producer decides to higher an additional worker and, as a result, the number of items produced per worker per unit of time increases
  - The producer is said to be enjoying *Increasing Marginal Returns.*
- Production has become more efficient as each worker specializes in a production task and makes effective use of the producer's capital resources.

Form 2 – Diminishing Marginal Returns

- If a producer continues to add workers, the total amount of production may continue to increase, but the per-worker production per unit of time will decrease.
  - This is referred to as *Diminishing Marginal Returns.*
- Each worker is competing for the use of the producer's capital resources.
  - As these resources are limited, efficiency decreases as more workers try to utilize them.

Form 3 – Negative Marginal Returns

- Eventually, if a producer hires enough additional workers, production can actually decrease.
  - This is known as *Negative Marginal Returns.*
- This occurs when the number of workers trying to utilize the available capital resources actual disrupts the production process and severely impacts efficiency.

Definitions

- Labor, or a labor force, is the number of workers at a producer's facility.
  - These Laborers utilize capital resources to produce a product.
  - Without a labor force, a producer cannot produce.
- A question faced by all producers is the size of a labor force to employ.
  - Producers must determine the most efficient number of workers to meet their production needs.
- This number is determined by analyzing the *Marginal Product of Labor.*
  - This is the amount of the change in production produced by each additional worker.
  - This change can take on three forms.