Q17. In what respect do the supply and demand curves in the labour market differ from those in the goods market?
Ans: The supply and demand curves in the labour market differ from those in the goods market in the following ways:
i) In a goods market, the demand for goods is made by consumers or households; while in a labour market, the demand for labour is made by firms.
ii) In a goods market, the supply of goods is made by firms; while in a labour market, the supply of labour is made by households.
So, in a goods market, firms act as suppliers; in a labour market, households act as suppliers.

Q18. How is the optimal amount of labour determined in a perfectly competitive market?
Ans:A profit maximising firm will employ labour up to the point where the extra cost incurred by employing the last unit of labour (wage) equals the additional benefit it earns by employing that unit of labour.
That is, Marginal cost of labour = Marginal benefit by labour

Or, Wage rate = Marginal Revenue Product

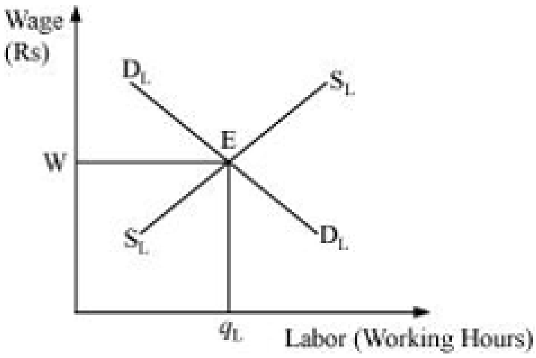
Or, w = MRP_L

Or, w = $MR \times MP_L$ (as $MRP_L = MR \times MP_L$)

Or, w = $P \times MP_L$ (in Perfect Competition Price = MR)

Or, w = VMP_L (because $VMP_L = P \times MP_L$)

The demand for labour is derived from VMP_L and the supply of labour is positively sloped. The equilibrium exists at E, where the demand for labour and the supply of labour intersect each other. The equilibrium wage rate is w and optimal amount of labour is q_L.



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