

Introduction

Econ 3470 Lecture 1

Labor Economics

2015-2016 Term 1

1 Some Basic Concepts

2 Labor Market Definition, Facts and Trends

- The Labor Force and Unemployment
- Hong Kong Labor Market
- Earnings of Labor

3 How the Labor Market Works

- Demand for Labor
- Supply of Labor
- Determination of Wages

What is Labor Economics?

Primarily concerned with the behavior of employers and employees in the labor market.

- How does the labor market works?
- What is the relationship between wages and employment opportunities?
- What are the interactions between wages, incomes and the decision to works?
- How does market incentives affect occupational choice?
- What is the relationship between wages and job characteristics?
- What are the incentives for and effects of educational and training investments?

The Labor Force and Unemployment

- Labor Force
 - all those over 16 years of age who are either employed, actively seeking work, or expecting recall from a layoff.
- Unemployed: people in the labor force who are not employed for pay
- Not in labor force: people who are not employed and are neither looking for work nor waiting to be recalled from layoff by their employers

The Labor Force and Unemployment

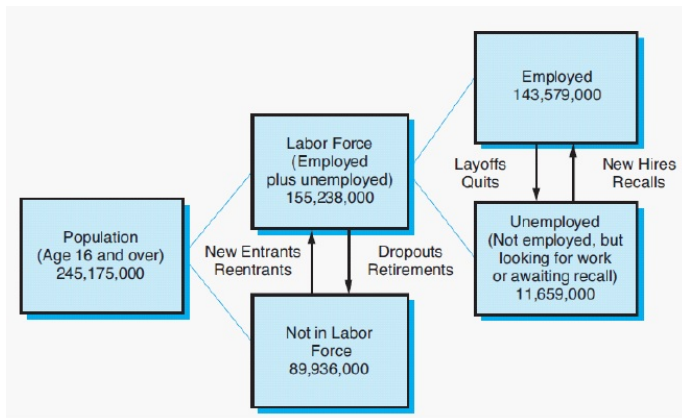


Figure 1: Labor force status of the U.S. adult civilian population, April 2013

Hong Kong Labor Market

Labor force participation rate (LFPR): labor force divided by population

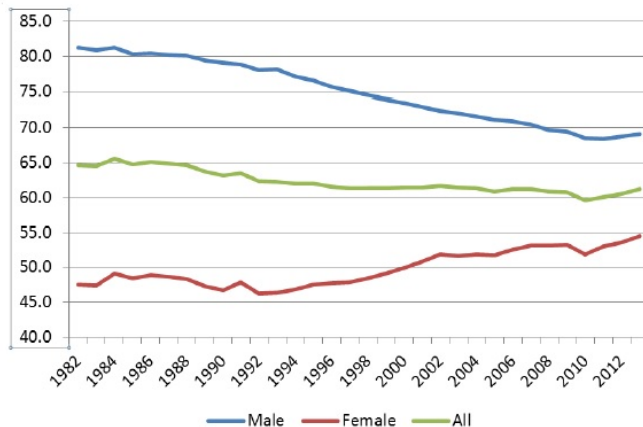


Figure 2: HK labor force participation rate by sex

Hong Kong Labor Market

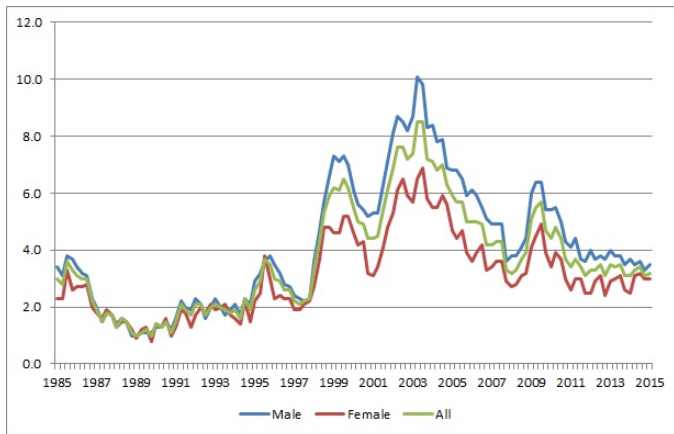


Figure 3: HK unemployment rate by sex

Trend in Hong Kong

- LFPR in general is decreasing.
- LFPR for men are falling.
- LFPR for women are increasing.
- Unemployment rate fluctuates over the business cycles.
- Unemployment rate for women is lower than that of men.

Hong Kong Labor Market

Median Monthly Wage Analysed by Sex, Age Group, Educational Attainment,
Occupational Group and Industry Section, May – June 2014

		Median monthly wage (HK\$)	
By sex			
Male		16,500	(+4.6%)
Female		12,700	(+4.5%)
By age group			
15-24		10,700	(+7.1%)
25-34		15,500	(+3.9%)
35-44		17,200	(+2.5%)
45-54		15,000	(+4.1%)
≥55		12,200	(+5.4%)
By educational attainment			
Primary and below		10,000	(+6.3%)
Secondary 1 to 3		11,400	(+4.5%)
Secondary 4 to 7		14,000	(+3.1%)
Tertiary education		23,500	(+3.5%)
By occupational group			
Elementary occupations		10,000	(+6.2%)
Service and sales workers		11,300	(+5.6%)
Craft and related workers, plant and machine operators and assemblers		16,500	(+6.5%)
Clerical support workers		12,100	(+4.5%)
Managers, administrators, professionals and associate professionals		24,100	(+3.4%)

The Earnings of Labor

- Wage rate - price of labor per working hour
- Nominal wage - what workers get paid per hour in current dollars
- Real wage - nominal wage divided by some measure of prices, suggest how much can be purchases with workers' nominal wages
- Earnings -depend on both wages and the length of time the employee works.
- Income - time period (usually a year) includes both earnings and unearned income, which includes dividends or interest received on investments and transfer payments received from the government etc.

The Earnings of Labor

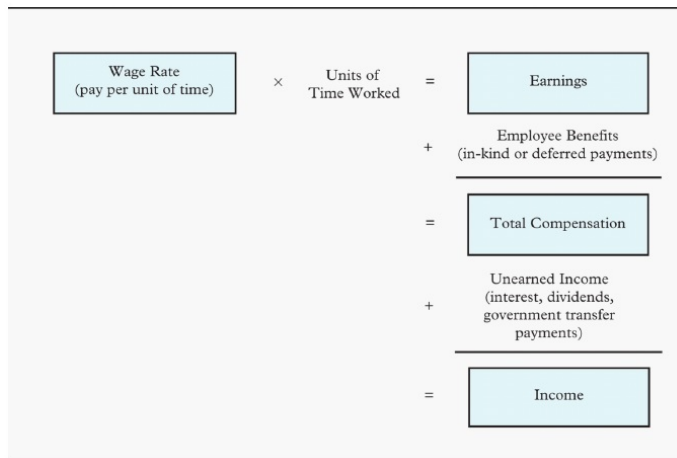


Figure 4: Relationship among wages, earnings, compensation, and income

How the Labor Market Works

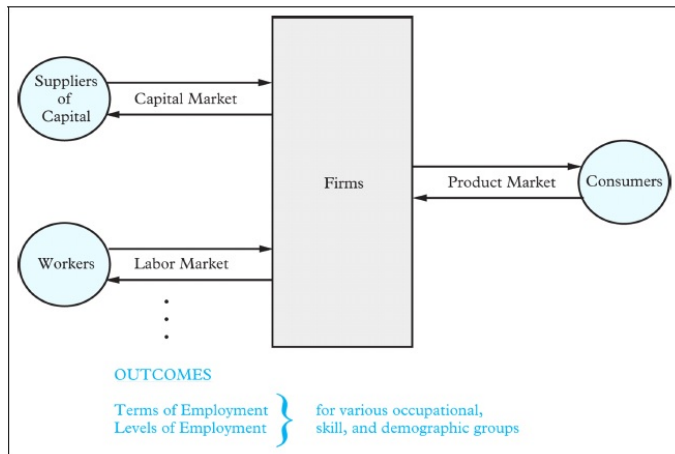


Figure 5: The markets in which firms must operate

How the Labor Market Works

Labor market is one of the three markets (the other 2 are capital market and product market)

- Labor market composed of all the buyers and sellers of labor service.
- Study of labor market is the analysis of the demand for and supply of labor.
- Demand side are the employers.
- Supply side are workers and potential workers.
- Note: For a particular “labor market” say for taxi drivers, the term may loosely refer to companies trying to hire people to drive their taxi cabs and people seeking to be employed as taxi drivers. Neither employers nor drivers are confined to this market; both could simultaneously be in other markets as well.

The Demand for Labor

- Firms produce goods or services to be sold in the product market.
- They use various factors of production to produce goods and services.
- We mainly categorize the factors of production into capital and labor.

The Demand for Labor

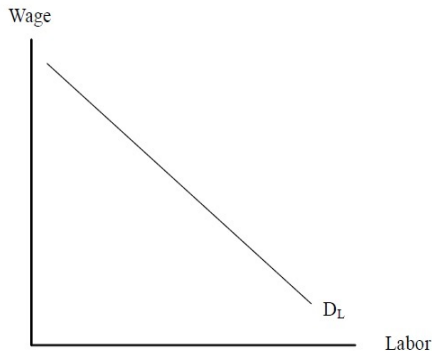


Figure 6: Labor Demand

Demand for labor shifts when other factors affecting the demand changes.

The Demand for Labor

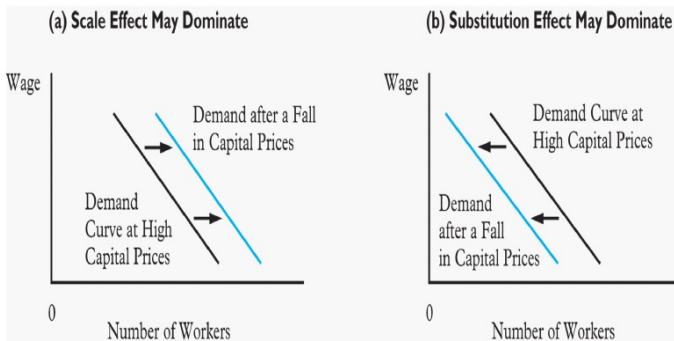


Figure 7: Possible shifts in demand for labor due to fall in capital prices

The Demand for Labor

The demand for labor can be analyzed on three levels:

- ① To analyze the demand for labor by particular firm.
- ② To analyze the effects of wage change on the employment in the entire industry.
- ③ See how the wage increase would affect the entire labor market, in all industries in which they are used, by employing the market demand curve.

The Demand for Labor

- Short run - difficult to substitute capital for labor
- Long run - able to fully adjust consumption and production behavior.

The Supply of Labor

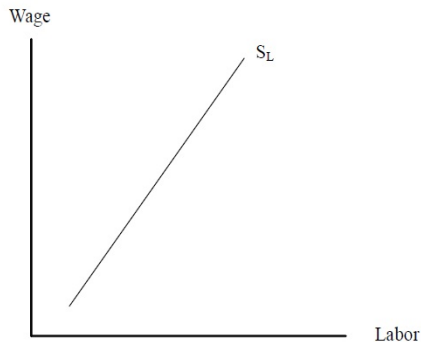


Figure 8: Market supply

The Supply of Labor

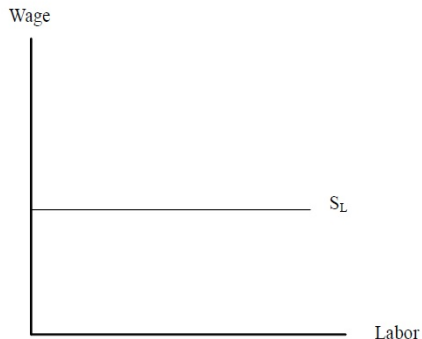


Figure 9: Supply to firms - perfectly competitive

Determination of Market Clearing Wage

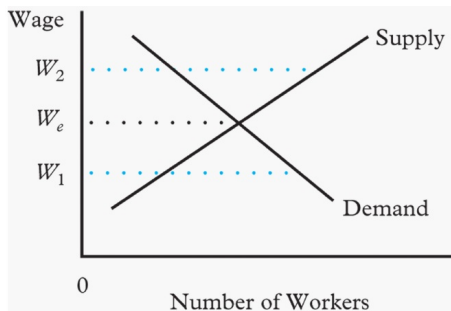


Figure 10: Market demand and supply

Determination of Market Clearing Wage

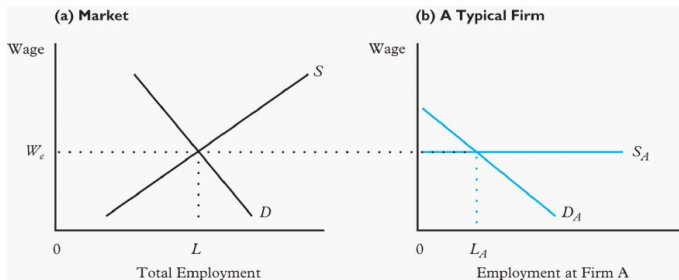


Figure 11: Demand and supply at the market and firm levels

- Ehrenberg and Smith (2015) *Modern Labor Economics: Theory and Public Policy, Chapter 1 and 2*