

LABOUR DEMAND AND SUPPLY



Multiple choice

- 1 C
- 2 A
- 3 B
- 4 B
- 5 C

Matching terms

The total number of persons employed in part-time and full-time work.	workforce
The total number of persons employed and unemployed.	labour force
Demand for resources determined by the demand for output.	derived demand
Those people that are not employed but are actively seeking work and are available for work.	unemployed persons
The output per unit of labour per unit of time.	productivity of labour
The ability to move between different locations in response to improved wage differentials and employment opportunities.	geographical mobility
The ability of labour to move between different occupations in response to wage differentials and employment opportunities.	occupational mobility
The percentage of the working age population who are working or actively seeking work.	participation rate

True or false

Select the alternative true or false that best answers the question. Place a tick in the space provided.

	True ✓	False ✓
1 The cost of capital influences the supply of labour.		✓
2 A decline in consumer income will indirectly reduce the demand for labour.	✓	
3 If four bricklayers lay one hundred bricks in five hours, the productivity of a bricklayer per hour is five bricks.	✓	
4 If the productivity of labour increases and the level of aggregate demand remains steady, the demand for labour will increase.	✓	
5 The demand for labour will be more elastic when it is easy for the firm to pass on increased costs to consumers in the form of higher prices.		✓
6 The labour force participation rate will increase if economic activity picks up, encouraging more people to look for work.	✓	
7 A 16 year old school student who is looking for part-time work on weekends is included in the labour force.		✓
8 There is a greater degree of occupational mobility between jobs which require high skill levels.		✓
9 Assuming that the labour market operates under a system of perfect competition, the ageing population in Australia will lead to an increase in the wage rate and a decrease in the number of people employed.		✓
10 The labour supply curve may be backwards bending.	✓	

Short answers

Question 1

- a) An improvement in working conditions will increase the expenses of a business and may therefore result in a lower demand for labour as the firm cannot afford more workers.
- b) A change in AD will change the demand for goods and services, and so the demand for the labour that produces them.
- c) A fall in interest rates will encourage firms to borrow for expansion, hence increasing the demand for labour.
- d) The level of geographical mobility will affect the supply of labour, not the demand.

Question 2

- a) The output per worker over a given period of time.
- b) 40 units
- c) Decreasing from 5 units ($100/20$) to 4 units ($160/40$) to 3 units ($240/80$) over the three years respectively.
- d) This will lead to a decreased demand for labour as workers are replaced by more efficient capital.

Question 3

Occupational mobility is the ability of an individual to move between job types. For example, a plumber moving into managing a construction business. Geographical mobility refers to the ability of an individual to move between regions to work. For example, an accountant who must move from the rural areas to the urban areas in search of work.

Question 4

Factors that will decrease the LFPR will include:

- an increase in the high school retention rate
- a decrease in the retirement age
- a fall in the confidence of those without work that they will be successful if they seek work.
- a fall in the number of child care places that are available and allow women to return to work

Question 5

Problems with an aging population include the increased reliance of the population on government welfare payments and pensions, placing pressure on the government. Also, there is a decreasing number of people paying income tax, reducing the available revenue for the government. Thirdly the labour force will fall as increasing numbers of the population are in retirement, resulting in lower aggregate output levels.