

The Demand & Supply Theory of Wages

ii. Other factors of production:

Helps in determining the demand of labor. The price and amount of other factors of production employed affects the demand for labor. For example, if other factors of production are expensive then the demand for labor would be high. However, if other factors are available at cheaper quantity, then the demand for labor would reduce. Similarly, an increase in the demand of technology would reduce the demand for labor.

iii. Marginal productivity:

Refers to one of the most important factor that helps in the determination of demand for labor. An employer hires labor to increase his/her profit. For this, the employer needs to provide wages to avail the services of labor' He/she would employ labor until the increase in number of labor would increase the net output but at the diminishing rate.

The employer would not hire any more labor when the output produced by an additional labor is equal to the additional cost incurred to hire that labor.

Therefore, the wages paid to the labor is equal to the additional output/marginal output produced by that labor.

However, labor is considered as the homogeneous commodity; therefore, the amount of wage paid to one additional labor is similar to the amount of wage paid to the rest of the labor. The demand schedule of labor shows that the decrease in wage would increase the demand for labor. It is similar to the demand schedule of a product.

Increase in number of labor would increase the output of product that would result in lowering down the product's price. This results in the decrease of marginal productivity of the industry. The change produced in the demand of labor can be determined with the help of change produced in wage rate of labor.

However, the degree of this change is obtained with the help of elasticity of demand of labor. If smaller change in the wage rate of a labor produces a larger change in the demand of labor, then the demand of labor is elastic and vice-versa.

Supply of Labor:

Supply of labor refers to the number of hours spent by labor in the factor market. In an economy, there are several factors that influence the supply of labor. Some of the factors are wage rate, population size, age structure, availability of education and training employment opportunities for women, and social security programs.