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The Markets for Labor

Chapter 1: The Labor Market

- Labor Economics: Studies the determination of wages and employment and the resulting income distribution.
- Most relevant to our lives of all areas of economics.
- Labor Market: Interaction between buyers and sellers of labors (I.e., firms and individuals);
- Labor market is a factor market

How Labor Market Differs from Other Markets

- Sellers of labor are people
- →
- Employment matches work better when they last awhile.
- Much heterogeneity of workers and jobs
- Many markets

5 Key Labor Market Outcomes

- 1. Changing level and composition of labor supply – workers (trend over time).
- 2. Δ ing level and composition of labor demand – jobs (trend over time).
- 3. Δ ing Structure of earnings
- 4. Δ ing Labor-management relations
- 5. Δ es in the level and composition of unemployment

To Note in Figure 1.2

- Decline in average annual hours worked per worker
- Trend in Labor Force Participation Rate (LFP)
 - 1. Decline for men:
 - 2. Increase for women:
 - 3. Increase in population with college degree (rising skill level):

To Note from Table 1.1

- Trend in level and composition of jobs

Structure of Earnings

- #3 from earlier list.
- How do earnings differ across workers, across occupations; how vary over time; and how do earnings differentials grow over time?
- Example: in 1997, a pharmacist earned 5 times more per week than a child care worker. Why?

To Note from Figure 1.3

- Fluctuation in union wage premium over time:
- Decline in percentage of the workforce that is in a union:

Why the Decline in Unionization over Time?

- 1. Shift in type of jobs from manufacturing to services.
- 2. Shift in jobs across regions.
- 3. Government legislation that improved working conditions (decreased need for unions).
- 4. Firms fight harder against formation of unions.

Level and Composition of Unemployment

- Definition of unemployment: Person who is NOT working but is actively seeking work.
- Unemployment rate: in the news all the time.
- To note in Figure 1.4:
 - 1. Business cycle fluctuations.
 - 2. Differences for diff. groups. (e.g: teenagers; race)

WHY Have These Broad Outcomes Occurred?

- Explain by studying the process by which the labor market operates.
- 1. Market forces
- 2. Institutional forces
- 3. Sociological forces

Market Forces

- Interaction of Supply and Demand
- Demand for labor: by firms
- A derived demand (demanded due to the output it will produce).
- Recall from Micro Principles: Firms' goal is to maximize profits
- Supply side: Derived supply—workers supply labor because of what they can buy with the earned income.
- Labor market works efficiently through changes in wages and mobility of labor.

Micro Review:

Supply Curve

- Shows quantity supplied at each possible price, ceteris paribus (c.p.).
 - Slopes upward:
 - $Q_s = Q_s(P)$
 - Shift S Curve if change c.p. factor
 - Movement along vs shift
 - C.P. factors:..
 - Interpret shift S curve:

Micro Review:

Demand Curve

- Shows quantity demanded at each possible price, ceteris paribus (c.p.)
 - Slopes downward:
 - $Q_d = Q_d(P)$
 - Movement along versus shift.
 - C.P. factors.
 - Interpret shift D curve:

Micro Review: Market Mechanism

- Put Supply and Demand Together
- Equilibrium
 - Point at which $Q_s = Q_d$;
 - Market-clearing P and Q;
- Describe re-equilibrating process by changing C.P. factor:
 - Increase in income causes increase in demand (shift D rightward)
 - At old P, Q_d greater than Q_s : so individuals bid up price till reach new equilibrium.

Market Adjustment in Labor Market

- Now price is wage and “Q” is labor.
- Note initial W_e and L_e .
- 1. Show what happens if actual wage $> W_e$ (how market naturally moves to equilibrium).
- 2. When in equilibrium, show what happens if D_L shifts left.

Institutional Forces

- Recall our list of three forces that affect the labor market process; this is second factor.
- Any institution that alters the free adjustment process of wages and employment in the labor market.
- Institutions can *improve* or *impede* adjustment
- Example: internal labor market: hiring preference to applicants already working in firm.
- Example: unions: ↑ bargaining power of workers.

Sociological Forces

- How important are these forces?
- Examples:
- Read on own: Evolution of labor market theory.

Link to Politics

- Relative importance of sociological forces: Leads to personal view regarding relative roles of market and government.
- Differences in opinion are largely a matter of degree: HOW much government?
- Two major U.S. political parties:
 - Republicans: more to market
 - Democrats: more to government

Push for Unbiased Answers

- How to get past opinions to to get relative unbiased answers to policy questions?
- Develop theory or model about how real world works, then test with data.
- Example: What happens to employment if $\uparrow W_{\min}$?

Positive vs Normative

- Positive statement:
- Normative statement:
- Sometimes hard to tell between the two.



REFLEKSI



- 1. Informasi penting hari ini**
- 2. Manfaat penting dari informasi penting hari ini**
- 3. Tindak lanjut yang dapat saudara lakukan**



Thank you!
Any questions?