# Labor, stocks and bonds

According to the basic law of demand and supply, increases in the real wage rate or the price of labor must decrease the quantity of labor demanded, as employers find it increasingly expensive to hire more people. Would increases in the real wage rate, therefore, decrease the productivity of the firm, that is, the number of the outputs that it produces? – Not necessarily.

This is where the assumption of diminishing marginal product of labor steps in to save the firm from significantly reducing its supply of outputs. The marginal product of labor refers to the " increase in output produced from a given capital stock when an additional worker is employed (" Marginal Product of Labor")." On the other hand, diminishing marginal product of labor means that " each additional labor hour results in less and less extra output (" Costs of Production"). This assumption is explained by the popular saying, ' Too many cooks spoil the broth.' Thus, the firm does not need to increase its demand for labor beyond a certain number in any case.

Stocks and Bonds

The dissimilarity between stocks and bonds is explained by the difference between " owning and lending (" The Difference Between a Stock and a Bond")." The purchaser of a stock is a part-owner of the company whose stock he has bought. He gets to vote on the way the company should be run, and enjoy dividends in addition to " capital appreciation" as a participator in its success (" The Difference Between a Stock and a Bond"). Of course, he gets to participate in the failures of the company to boot, through lower dividends and stock prices. The purchaser of a bond, on the contrary, will be paid before the stockholders in the case of companyfailure.

He has lentmoneyto the company after all. The company, in turn, promises to repay its loan at a fixed time, with interest. Even so, the purchaser of the bond does not enjoy extra interest when the company performs exceptionally well (“ The Difference Between a Stock and a Bond”).

# Reference


1. “ Costs of Production.” Ohio State University. 8 Oct. 2007. .
2. “ Marginal Product of Labor.” London South East. 8 Oct. 2007.
3. .
4. “ The Difference Between a Stock and a Bond.” Cash +, Issue 1 (Fall 2006). 8 Oct. 2007.
5. .