Labor demand

Labor demand refers to the number of labor hours employed whereas labor supply is the number of labor hours available for employment. When the behavioral models for both labor demand and labor supply are combined together it enables us deduce equilibrium real wage and the equilibrium amount of employment. At equilibrium, the demand for labor is equivalent to the labor supply it is assumed that everyone in the market who wants a job has a job available for him.

In this state the equilibrium value of employment is termed as full employment. What happens when the labor market is out of equilibrium? At a state where the current real wage is higher than the equilibrium real wage, the labor supply is greater than the demand for labor which means there is an excess supply of labor in the market. The large number of workers compete for the few available jobs giving employers an opportunity to lower the real wage below the equilibrium wage.

This is a demonstration of how competitive market forces influence wage. When the current wage is not equal to the equilibrium real wage these competitive market forces push the wage towards the equilibrium wage and as the wage adjusts, labor demand and labor supply move closer to equilibrium. In a situation where theminimum wageis higher than the equilibrium wage, employers demand and hire less than would be hired at equilibrium wage. In addition, the labor demand is fully supplied and there is an excess labor supply in the market.

Workers employed under these conditions are better off but the workers offering the difference between the labor supplied and the labor demanded who cannot find jobs in these industries covered by the minimum wage.

These workers may opt to shift their focus to industries with equilibrium wages, or industries that pay less than minimum wage but are not covered by the minimum wage, some become self employed in very small enterprises, while others drop out the labor force entirely or become unemployed. REFERENCES

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