Supply and demand in a global market economics essay

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The demand for labor is said to be a derived demand Cleary, 2012. The meaning of derived demand is the demand for a good or service that results from the demand for another good or service. An example would be the demand for pine trees, in part, for the demand for newsprint (Derived Demand, n. d.). Another good example would be that society does not demand cloth or material, but they do demand clothes/shoes that are made from them. If there is a demand for cars, then there will be a demand for steel. Whereas if the demand for cars went down, then so would the demand for steel.

Labor demand is a derived demand since hiring labor is not an aspiration for its particular sake but rather to aid in producing output, which contributes to an employer's revenue and profits. The demand for an additional amount of labor depends on the Marginal Revenue Product (MRP) and the marginal cost (MC) of the worker (ChaCha, n. d.). The method to calculate the MRP (Marginal Revenue Product) is by multiplying the price of the service or end product by the MPP (Marginal Physical Product) of the workers. In order for the firm to hire a worker to increase profit, then the MRP must be greater than the firm's marginal cost. In economic theory, a firm will only employ leading to the peak where MRP= MC and not beyond that.

First I would like to define labor supply. Labor supply is the availability of suitable human resources in a particular labor market (What is Labor Supply, n. d.). When the economy is expanding, we expect to see a rise in the aggregate demand for labor providing that the rise in output is greater than the increase in labor productivity. In contrast, during an economic recession or a slowdown, the aggregate demand for labor will decline as businesses

look to cut their operations costs and scale back on production. In a recession, business failures, plant shut-downs and short term redundancies lead to a reduction in the derived demand for labor (Riley, 2006) (Edexcel as Unit 1, n. d.). Some factors that determine the supply of labor in a market are productivity, demand for the product, and cost of substitution, technology, economic development, and elasticity of demand for a product.

The significant factors that have changed in the supply of labor over the last twenty years are that the less skilled workers wages have fallen steeply since the 1970s. Between 1979 and 1988 the average wage of a college graduate relative to the average wage of a high school graduate rose by 20 percent and the average weekly earnings of males in their forties to average weekly earnings of males in their twenties rose by 25 percent. This growing inequality reverses a trend of previous decades (by some estimates going back as far as the 1910s) toward greater income equality between the more skilled and the less skilled. At the same time, the average real wage in the United States (that is, the average wage adjusted for inflation) has grown only slowly since the early 1970s and the real wage for unskilled workers has actually fallen. It has been estimated that male high school dropouts have suffered a 20 percent decline in real wages since the early 1970s (Slaughter & Swagel, 1997).

The significant factors that have changed the supply of labor over the past twenty years are the increased importance of immigration, slow population growth, and population aging. By increasing the supply of labor between 1980 and 2000, immigration reduced the average annual earnings of native-born men by an estimated $1, 700 or roughly 4 percent. It is the presence of

additional workers that reduces wages, not their legal status. The reduction in earnings occurs regardless of whether the immigrants are legal or illegal, permanent or temporary. The negative effect on native-born black and Hispanic workers is significantly larger than on whites because a much larger share of minorities are in direct competition with immigrants (Borjas, 2004).

The way that firms determine its prices and the quantity of labor required in the resource market during a specific period will depend a lot on the demand of society. If the demand for certain wares increase then the supply will inevitably increase. When there are shortages then the suppliers will increase the price of any particular good/product. A profit-maximizing firm will base its decision to hire additional units of labor on the marginal decision rule: If the extra output that is produced by hiring one more unit of labor adds more to total revenue than it adds to total cost, the firm will increase profit by increasing its use of labor. It will continue to hire more and more labor up to the point that the extra revenue generated by the additional labor no longer exceeds the extra cost of the labor (Rittenberg, L., & Tregarthen, T., n. d.).