Objectives

1. **Analyze** how supply and demand in the labor market affect wage levels.

2. **Describe** how skill levels and education affect wage levels.

3. **Explain** how laws against wage discrimination affect wage levels.

4. **Identify** other factors affecting wage levels, such as minimum wage and workplace safety laws.
Key Terms

• **derived demand**: a type of demand that is set by the demand for another good or service

• **productivity of labor**: the quantity of output produced by a unit of labor

• **equilibrium wage**: the wage rate that is set when the supply of workers meets the demand for workers in the labor market

• **unskilled labor**: work that requires no specialized skills, education, or training

• **semi-skilled labor**: work that requires minimal specialized skills and education
Key Terms, cont.

- **skilled labor**: work that requires specialized skills and training
- **professional labor**: work that requires advanced skills and education
- **glass ceiling**: an unofficial barrier that sometimes prevents some women and minorities from advancing to the top ranks of organizations dominated by white men
- **labor union**: an organization of workers that tries to improve working conditions, wages, and benefits for its members
- **featherbedding**: the practice of negotiating labor contracts that keep unnecessary workers on a company’s payroll
• Why do some people earn more than others?
  
  – What people earn for what they do is largely a matter of how many people are willing and able to do the job and how much that job is in demand.
  
  – Like other goods, labor is a good that is bought and sold.
Labor Demand

• The demand for labor comes from private firms and government agencies that hire workers to produce goods and services.

  – Demand for labor is called derived demand because it is set by the demand for another good or service.
  – In a competitive labor market, workers are usually paid according to the value of what they produce.
Supply of Labor

• The supply of labor comes from people willing to work for wages.

• The higher the wage for a particular job, the larger the quantity of labor supplied.

  – According to the demand curve, if each cook works a 40-hour work week, how many cooks will be hired at $12 an hour and $16 an hour?
Equilibrium Wage

• Checkpoint: What determines the equilibrium wage of labor?
  – The equilibrium wage is the wage rate, or price of labor or services, that is set when the supply of workers meets the demand for workers in the labor market.
  – At equilibrium there is no pressure to raise or lower wages.
In addition to varying according to labor supply and demand, wages also vary depending on workers’ skill levels and education.

Jobs are often categorized into four skill levels:

- Unskilled labor
- Semi-skilled labor
- Skilled labor
- Professional labor
Wage and Skill Levels, cont.

• Labor supply and demand can create a significant difference in pay scales for workers with various skills.
  – Doctors, for example, who have extensive training and experience enjoy a high demand for their services relative to the supply and, therefore, earn higher wages.
  – High levels of danger or physical or emotional stress can affect the equilibrium wage for a particular job as well.
Wages for High-Risk, Low-Risk Jobs

• These graphs show how wages compare for similar jobs with different degrees of risk.
  – Write a sentence that compares the demand curves for the two graphs.
  – Write a sentence that compares the two supply curves.
Wage Discrimination

• Some people are paid less not because of their skill level but because of the social group they belong to. This practice is known as wage discrimination.
  – Women and minority groups have both suffered wage discrimination.
  – Congress has passed several anti-discrimination laws to prevent wage discrimination including:
    • Equal Pay Act of 1963
    • Civil Rights Act of 1964, which established the Equal Opportunity Commission (EEOC)
Pay Levels for Women

• Despite protections, women still earn less than men as a result of three factors:
  – Women’s work
    • Historically women have been encouraged to seek careers in teaching, nursing, and clerical work, which has led to a high supply of workers.
  – Human capital
    • Overall, women are less educated than men, making them ineligible for high-paying, male-dominated jobs.
Pay Levels for Women, cont.

• Women’s career paths
  – Women are often perceived by employers as not being interested in advancement.
Pay Levels Across Society

• Racial discrimination has led to the wage gap for minorities.
• Non-discrimination laws are designed to give minorities improved access to education and job opportunities so they can close the wage gap.
  – Checkpoint: What groups have been hurt by wage discrimination?
Other Factors

• Minimum wage laws and safety laws also affect wages.
  – Minimum wage creates a minimum hourly rate that employers must pay workers.
  – Workers are willing to work for lower wages when jobs are safer.
Employer Actions and Labor Unions

• Employer actions and labor unions also affect wages.
  – Employer actions
    • A company may try to cut labor costs, which in turn, lowers wages. They often replace human capital with physical capital.
  – Labor unions
    • Labor unions can affect wages by persuading employers to increase their pay. Unions are a much disputed aspect of the labor force in today’s world.
• Now that you have learned why some people earn more than others, go back and answer the Chapter Essential Question.

  – How can workers best meet the challenges of a changing economy?