



## Chapter 9: Labor Section 2

**Prentice Hall**

# ECONOMICS

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# 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



# Introduction

- 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

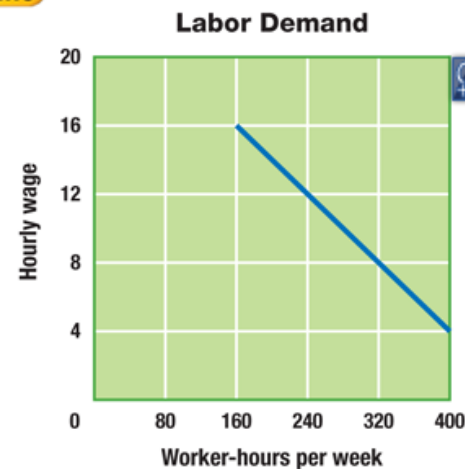
- The demand for labor comes from private firms and government agencies that hire workers to produce goods and services.
  - Demand for labor is called derived demand because it is set by the demand for another good or service.
  - In a competitive labor market, workers are usually paid according to the value of what they produce.



# Supply of Labor

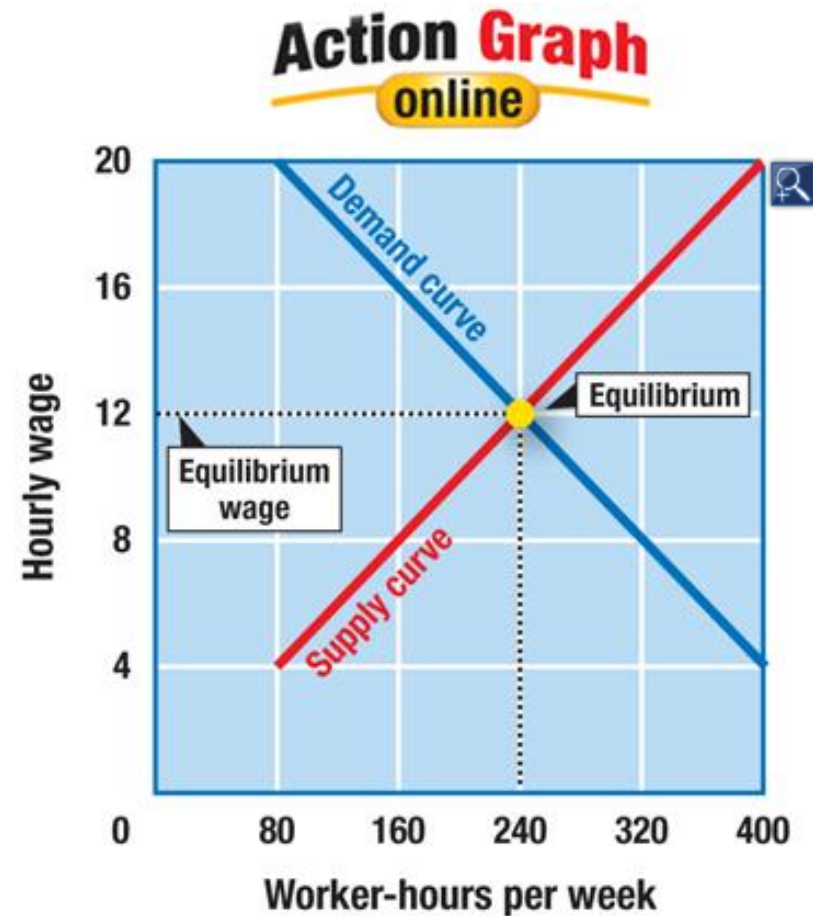
- The supply of labor comes from people willing to work for wages.
- The higher the wage for a particular job, the larger the quantity of labor supplied.
  - According to the demand curve, if each cook works a 40-hour work week, how many cooks will be hired at \$12 an hour and \$16 an hour?

## Action Graph online



# 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.





# Wage and Skill Levels

- 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.

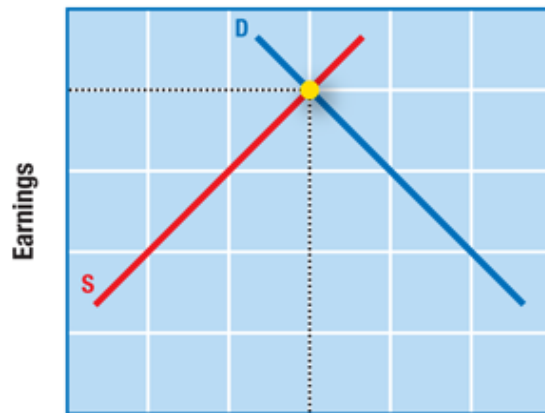
- Labor supply and demand can create a significant difference in pay scales for workers with various skills.
  - Doctors, for example, who have extensive training and experience enjoy a high demand for their services relative to the supply and, therefore, earn higher wages.
  - High levels of danger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



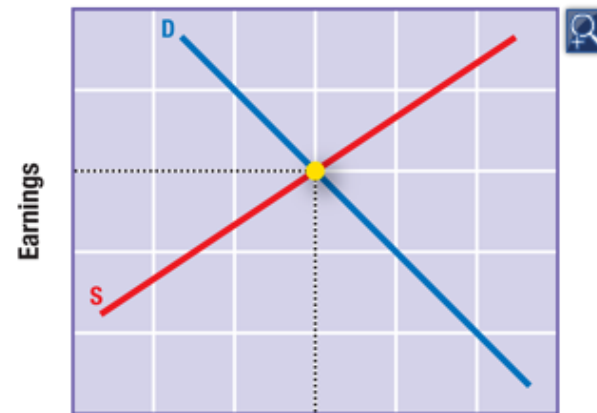
# Wages for High-Risk, Low-Risk Jobs

- 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.

## Action Graph online



Workers in high-risk jobs



Workers in low-risk jobs



# 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.





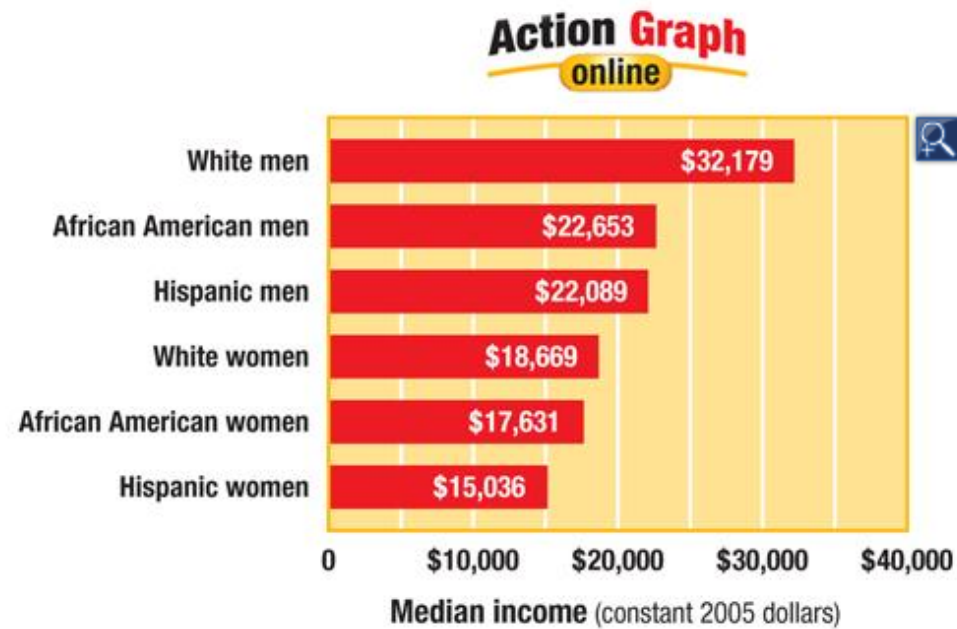
# Pay Levels for Women, cont.

- 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?



SOURCE: *The 2008 Statistical Abstract of the United States*



# 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.

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## Safety and Minimum Wage Laws

Many jobs teenagers hold are closely regulated by the federal government, which restricts hours and sets safety standards for workers under 18. *It is against the law for teens to operate a forklift because of the dangers.*



**PRODUCE**

Some jobs, like stocking produce, are well-suited for young workers and pay the minimum wage.



▲ Explain the relationship between safety and wage levels. *Under what conditions might the teenager in the second picture not be allowed to work?*



- 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.





# Review

- 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?

