Labour Market and Wage differences

1. What is a labour market?

In this labour market, the market equilibrium reflects the wage for the workers which is determined by the demand for and supply of labour. The demand curve is downward sloping as the wage rate decreases, there is an increase in quantity demanded for labour and vice-versa. As for the supply curve, it is upward sloping as the wage rate decreases, there is an increase in quantity supplied and vice-cersa.

1.1 Demand for labour

Demand for labour can be contributed by a change in the wage rate or changes in the factors that affect the demand for labour, resulting in change in quantity demanded and change in demand for labour respectively.

1.2 Supply of Labour

Supply of labour can be determined by change in the wage rate or changes in the factors that affect the supply of labour, resulting in change in quantity supplied and change in supply respectively.

1.3 How wage rate is determined?

2. Why wage rate is different in different industries?

**3.1 Factors affecting an individual’s choice of occupation**

The factors can be classified into two categories:

1. Wage factors
2. Non-wage factors

**3.2 Wage Factors**

* Rate of wages/Salary
* E.g. $7/hour
* Rate of commission
* Bonuses & Increments
* E.g. 13 month bonus, pay increments based on performance

**3.3 Non-wage Factors**

* Interests & personality
* E.g. prefers working with people
* E.g. prefers administrative work
* Abilities, talents and skills
* Hard skills – Teachable skills that can be defined and measured
* E.g. Typing, writing, reading, proficient in Microsoft Office
* Soft skills – Personality skills that are difficult to be measured
* E.g. Teamwork, verbal communication, decision-making
* Physical attributes
* E.g. Height, physical strength
* Working conditions
* Outdoors vs Indoors
* On land vs on sea/air
* Job benefits
* E.g. paid leave, daily allowance, retail discounts
* Job satisfaction
* E.g. Feel a sense of achievement when helping people
* Job security
* Ensure you stay employed
* Location of work
* Near home vs far from home
* Reputation of employer
* Internationally-recognised (e.g. Google, Apple, Nike)
* Localized companies

**3.4 Factors contributing to differences in earnings between different groups**

* Compensating wage differences
* High risk vs low risk
* Favorable condition vs unfavorable condition
* Long hours vs short hours
* Accumulated human capital
* Skills, qualifications and expertise
* Based on education level
* Productivity level
* Higher productivity, higher pay
* Revenue creation
* Ability to generate high levels of revenue
* E.g. movie stars, singers, professionals
* Trade union protection
* Protect worker rights
* Fight for higher wages
* Employers with market power
* Greater control of labour market
* Keep wage levels low so as to minimize cost of production
* Derived demand for labour
* Demand for certain goods and services
* Influence the wage levels indirectly
* Employer discrimination
* Preference over certain types of labour
* E.g. based on nationality, race, age, gender
* Government legislation
* Government policies
* E.g. minimum wage, progressive wage model

**3.5 Factors contributing to differences in earnings between specific groups**

* Gender
* Male vs Female
* E.g. Males have higher salaries due to gender bias
* Solutions – equal rights, equal job progression model
* Skill level
* Skilled vs unskilled
* Affects productivity level
* E.g. Blue collared workers (manual labour) vs white collared workers (managerial, administrative – E.g. PMET)
* Nature of sector
* Public sectors vs private sector
* Private sector
* Job flexibility
* Faster promotion
* Lower job security
* Public sector
* Job inflexibility
* Slower promotion
* Greater job security
* Nature of industry
* Agricultural vs Manufacturing vs Service
* Agricultural
* High supply of workers
* Low skills
* Manufacturing
* High supply of workers
* Low skills
* Service
* Lower supply of service providers relative to demand
* High skills

**4. Main Issues about wage difference and wage setting**

**4.1 Explain how wage difference leads to income inequality.**

**4.2 Explain how higher wage rate leads to growth of an economy.**

**4.2 Explain how higher wage rate leads to inflation.**

**4.3 explain how higher wage rate leads to higher standard of living.**

**Trade unions play a role in the New Zealand economy, but not every worker belongs to one. This is especially the case in small firms.**

**Describe the functions of a trade union. [4]**