



WJEC (Wales) Economics
AS-level
Microeconomics

Topic 3: Demand and Supply in
Labour Markets
3.2 Labour market issues


Notes

The factors which affect flexibility in labour markets


-  The flexibility of the labour market is how willing and able labour is to respond to changes in the conditions of the market. It is important for labour to be able to adjust to changes in demand, and it is vital for the supply-side of the economy.

-  **Trade union power:** If trade unions are pushing for higher wages, the labour market is likely to be more flexible. Trade unions can also increase job security. If trade unions limit the rights of a worker to strike, there could be a decline in flexibility.

-  **Regulation:** The more freedom firms have to hire and fire workers and the more freedom workers have in terms of their rights, the more flexible the labour market. Excessive regulation will limit flexibility.




-  **Welfare payments and income tax rates:** The reward for working should be high. If welfare payments are generous and income tax rates are high, labour market flexibility is likely to be lower.

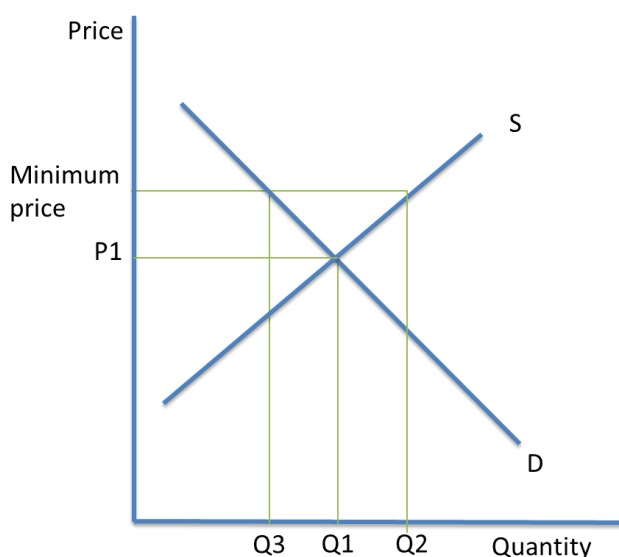
-  **Training:** More widely available training opportunities and a more skilled workforce makes the labour market more flexible.



-  **Mobility of labour:** The mobility of labour is the ability of workers to change between jobs.
 - The geographical immobility of the factors of production refers to the obstacles which prevent the factors of production moving between areas. For example, labour might find it hard to find work due to family and social ties, the financial costs involved with moving, imperfect market knowledge on work and the regional variations in house prices and living costs across the UK.

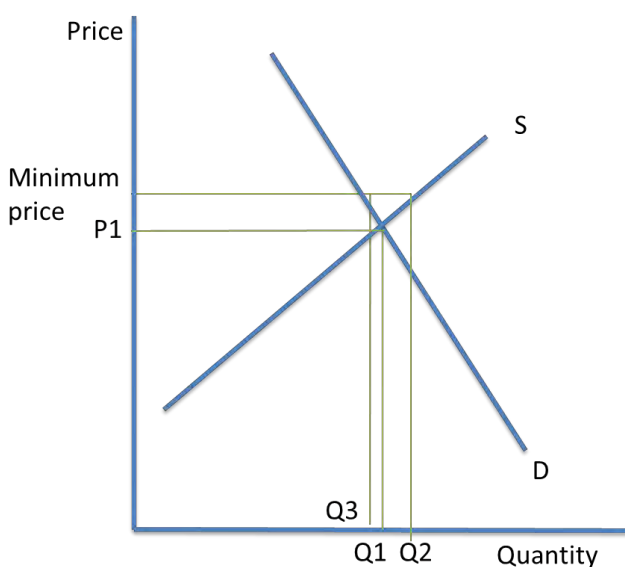
 - The occupational immobility of the factors of production refers to the obstacles which prevent the factors of production changing their use. For example, labour might find it difficult to change the occupation. This occurred in the UK with the collapse of the mining industry, when workers did not have transferable skills to find other work. The causes include insufficient education, training and skills.






The effects of a statutory minimum wage on labour markets

-  The **National Minimum Wage** is an example of a minimum price.
-  Minimum prices **have to be set above the free market price**, otherwise they would be ineffective.
-  The minimum wage could be used as an example.







-  The diagram suggests that a minimum wage leads to a fall in the employment rate ($Q_1 - Q_3$). It depends on what level the wage is set, though. An inelastic labour demand will mean there is only a small contraction in demand for labour ($Q_1 - Q_3$).
-  There has been no evidence of a rise in unemployment with a rise in the NMW so far in the UK. Some firms say this is because the NMW is still relatively low.



-  This minimum price will yield the positive externalities of a decent wage, which will increase the standard of living of the poorest, and provide an incentive for people to work.
-  It could make it harder for young people to find a job, because their lack of experience might not be valuable to firms.
-  The government might make more tax revenue, due to more people earning higher wages.
-  A higher wage could make the country less competitive on a global scale, since they cannot compete with countries that have lower wages.
-  It can be considered whether Wales should have their own minimum wage or not. Currently, Wales uses the same minimum wage as the rest of the UK.

The impact of migration on labour markets

-  There could be more competition to get a job due to the rise in the size of the working population. Migrants tend to be of working age, and many are looking for a job.
-  Migrants tend to bring high quality skills to the domestic workforce, which can increase productivity and increase the skillset of the labour market. This could increase global competitiveness.
-  Migrant labour affects the wages of the lowest paid in the domestic labour market, by bringing them down. However, this impact is only small. For the medium and higher income households, it is hard to find evidence of worker displacement or depressed wages.
-  The skills of migrant labour could substitute those of the domestic market, so workers could be replaced. If the skills complement the domestic labour market, there could be a welfare gain through higher productivities.