



Universidad
Politécnica
de Cartagena

Introduction to economics

Unit 6

Factor markets. The labour market

Grado en Turismo

Facultad de CC de la Empresa

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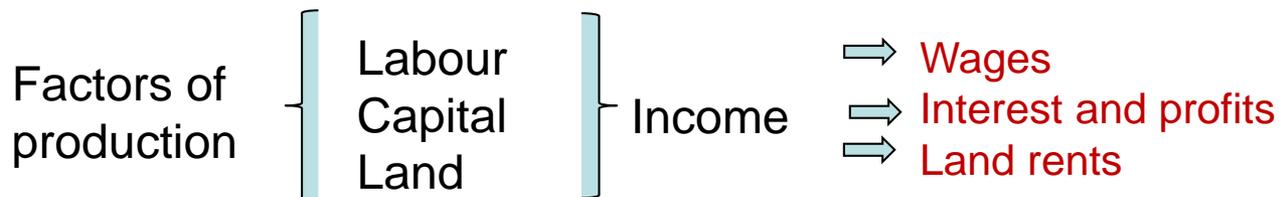
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Bibliografía: Mochón, F. (2009): Economía y Turismo. Ed. McGraw Hill. Madrid.



1. Factor payments

- Firms require factors of production (land, labour and capital) and pay the owners of these factors
- Income is the total amount of money received by the owners of the factors of production
- **Income** distribution: how income is distributed among the owners of the factors of production in the form of wages, land rent, interests and profits
- If there is a significant difference in wages, income distribution is unequal
- **Wealth** is the difference between assets (what you possess) and liabilities (what you owe) i.e. the net value of tangible and financial assets
- If wealth is possessed by a small percentage of a population, there will also be an unequal income distribution
- Payment of the owners of the factors of production is determined by how much the factors contribute towards production (value added)





2. The labour market

- In the labour market, firms demand labour in order to produce goods and services. Workers supply their labour
- The main variable which affects supply and demand is the wage rate
- The wage rate is determined by the equilibrium between supply and demand
- Firms demand labour for their production process. This demand for labour depends on wages, as well as on productivity and the prices of the goods produced
- Demand for labour: the number of people that a firm is willing to hire at each salary level. It is a downward curve
- Nominal wage: the total income received by workers for the provision of their services
- Real wages: the nominal wage divided by the price level



2. The labour market

- Labour supply is carried out by workers according to wages and labour-leisure choice
- Individual labour supply: the number of hours that an individual is willing to work on a wage basis
- Market supply of labour: the total number of people willing to work for each salary level. It increases with each salary level
- Labour market equilibrium: jointly determined by demand and supply of labour

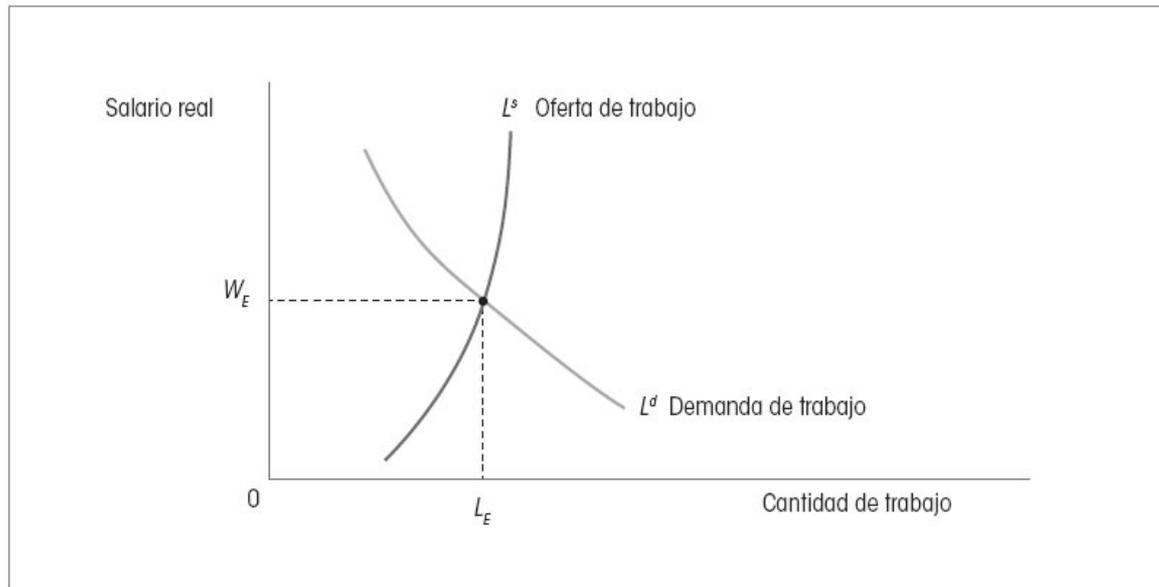


Figura 6.1 El equilibrio del mercado de trabajo. El nivel de empleo de equilibrio (L_E) y el salario de equilibrio (W_E) se determinan mediante la intersección de la curva de oferta de trabajo (L^s) y la curva de demanda de trabajo (L^d).



2. The labour market

- The market supply of labour depends on wages, the population and the activity rate
- Activity rate: the ratio of the labour force and the working age population

$$\text{Activity rate} = \frac{\text{Labour force}}{\text{working age population}} \times 100$$

Labour force = employed + the unemployed

- Demographic factors such as the birth rate and migration affect the market supply of labour



3. Unemployment

- Unemployment arises when the labour market is not in equilibrium and there exists a situation of excess supply

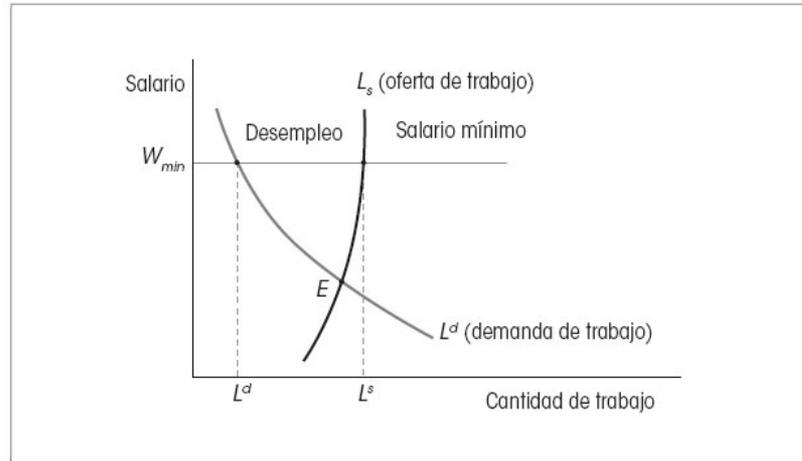


Figura 6.2 Salario mínimo. La fijación de un salario mínimo en un mercado genera un exceso de oferta, con lo que aparecerá un excedente, esto es, aumentará el desempleo.

Fuente: Mochón, F. (2009): Economía y Turismo. Ed. McGraw Hill. Madrid.

There are many causes of unemployment and therefore several types of unemployment

- Cyclical
- Structural
- Frictional
- Seasonal

$$\text{Unemployment rate} = \frac{\text{unemployed}}{\text{Labour force}} \times 100$$



4. Wage Differentials

- Wage differentials are caused by:
 - Different levels of education and work experience

Human capital refers to the knowledge, education, experience, qualities and skills of an employee. Differences in human capital accumulation account for wage differentials
 - The different characteristics of jobs

Not all jobs are equal. Compensating differentials: those wage differentials that exist to compensate for the non-monetary characteristics of different jobs
 - Discrimination based on gender and race



5. Interest and capital

- Physical capital or, simply put, capital consists of capital goods (buildings, machinery, etc.) employed in production
- Financial capital: resources available to a firm which allow it to finance the acquisition of everything necessary for carrying out its activity
- Interest: payment for capital services or the price of a loan
- Diversity of interest rates: for operational risk, for guarantee and for the time period
- Official interest rate of the European Central Bank: interest rate set by the European Central Bank (ECB)
- Euribor: interbank market rate. Used as a reference for mortgage loans