

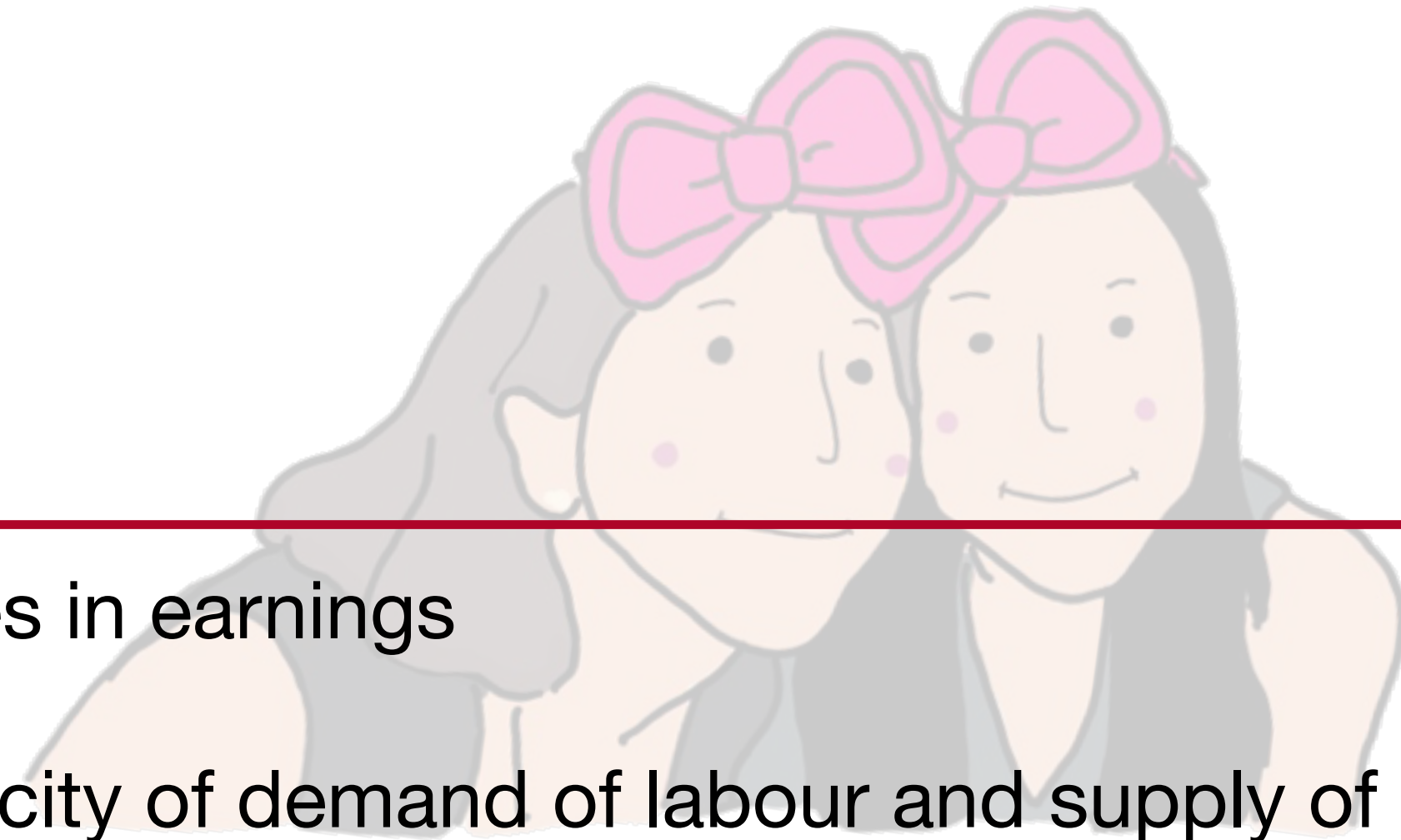


MICROECONOMICS - Workers

By Kru P'Eve and Kru P'Da Knockout.Economics

Overview

1. Factors that influence an individual's choice of occupation
 - Wage factors
 - Non-Wage factors
2. Wage determination
3. The reasons for differences in earnings
4. The determinants of elasticity of demand of labour and supply of labour
5. Specialisation and division of labour



1. Factors that influence an individual's choice of occupation

1.1 Wage factors

Salary

- A fixed regular payment, normally paid on a monthly for a professional or white-collar workers

Wage

- The amount of payment that is paid to an employee.
- It is the basic wage
 - ➔ piece rate (payment based on quantity output that workers produced)
 - ➔ OR time rate (payment based on time spent for the production of output).

Overtime Payment

- Extra payment for workers who work in excess of standard working week.

Bonus

- Extra payment based on firm's and worker's performance.

Commission

- Is a payment usually given to sales people based on sales they make.

1. Factors that influence an individual's choice of occupation

1.2 Non-Wage factors

Job satisfaction

- A feeling of enjoyment from job.

Type of work

- Eg. Non-manual work / High status

Working conditions

- Eg. Work in pleasant environment with friendly co-workers.

Working hours

- Occupations vary in term of the number of hours and timing of hours expected from workers

Holiday

- Eg. Minimum length of holiday entitlement for full-time employees.

Pension

- A payment that workers can receive during retirement period (Investment fund : employee and employer has contributed during working life.

Fringe benefits

- Additional benefits offered to employee beyond salary and other payments.
- Eg. Insurance, Tuition fee

Job security

- Workers are unlikely to be made redundant.

Location of workplace

- Workers may choose workplace which is close to their accommodation.

Size of firms & Career prospects

- People might interested to work in large organisation This is because such firms often offer high wage, better career prospect and high job security)

2. Wage determination

Wage determination

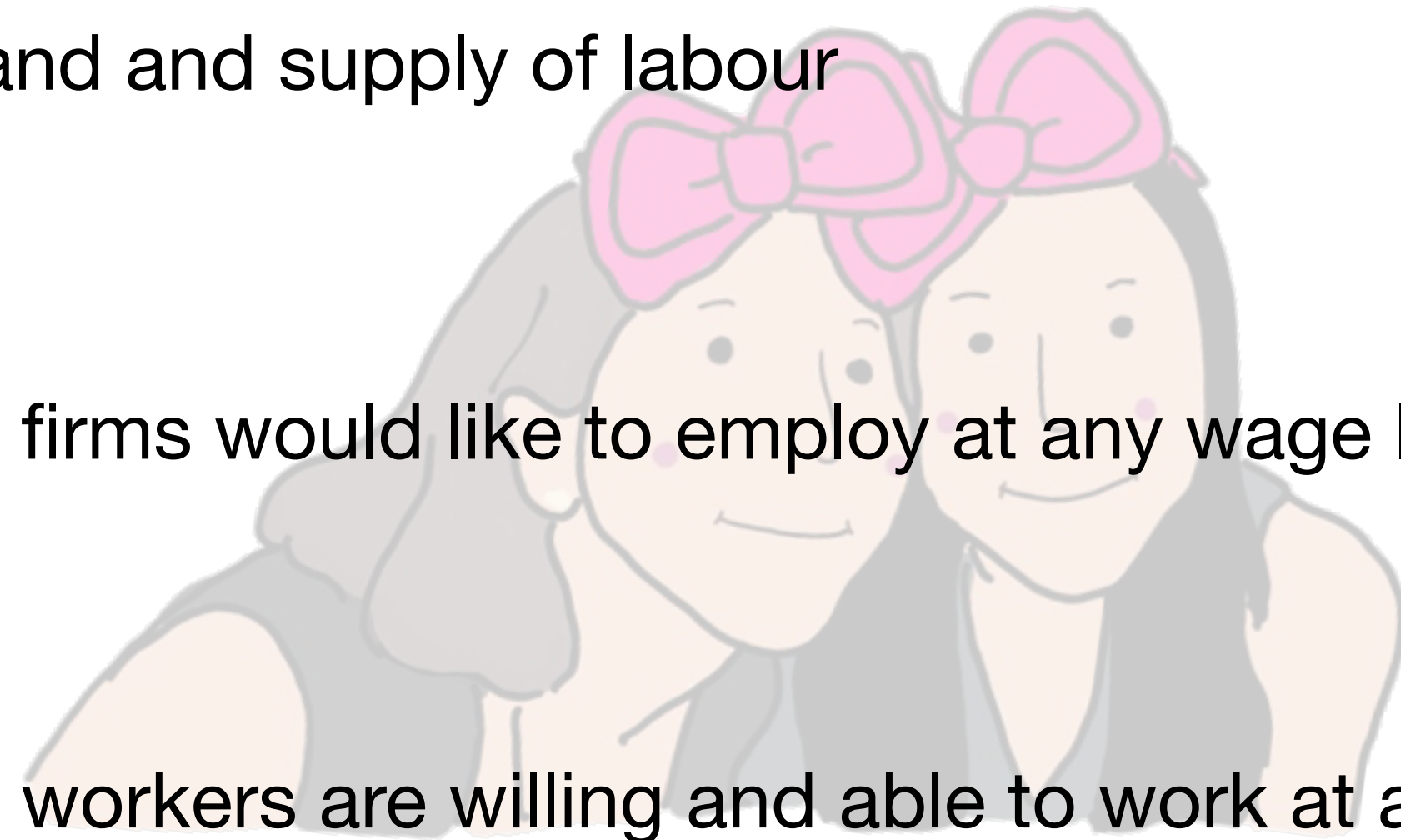
: Wage is determined by demand and supply of labour

: Demand of labour

➔ The amount of workers that firms would like to employ at any wage level.

: Supply of labour

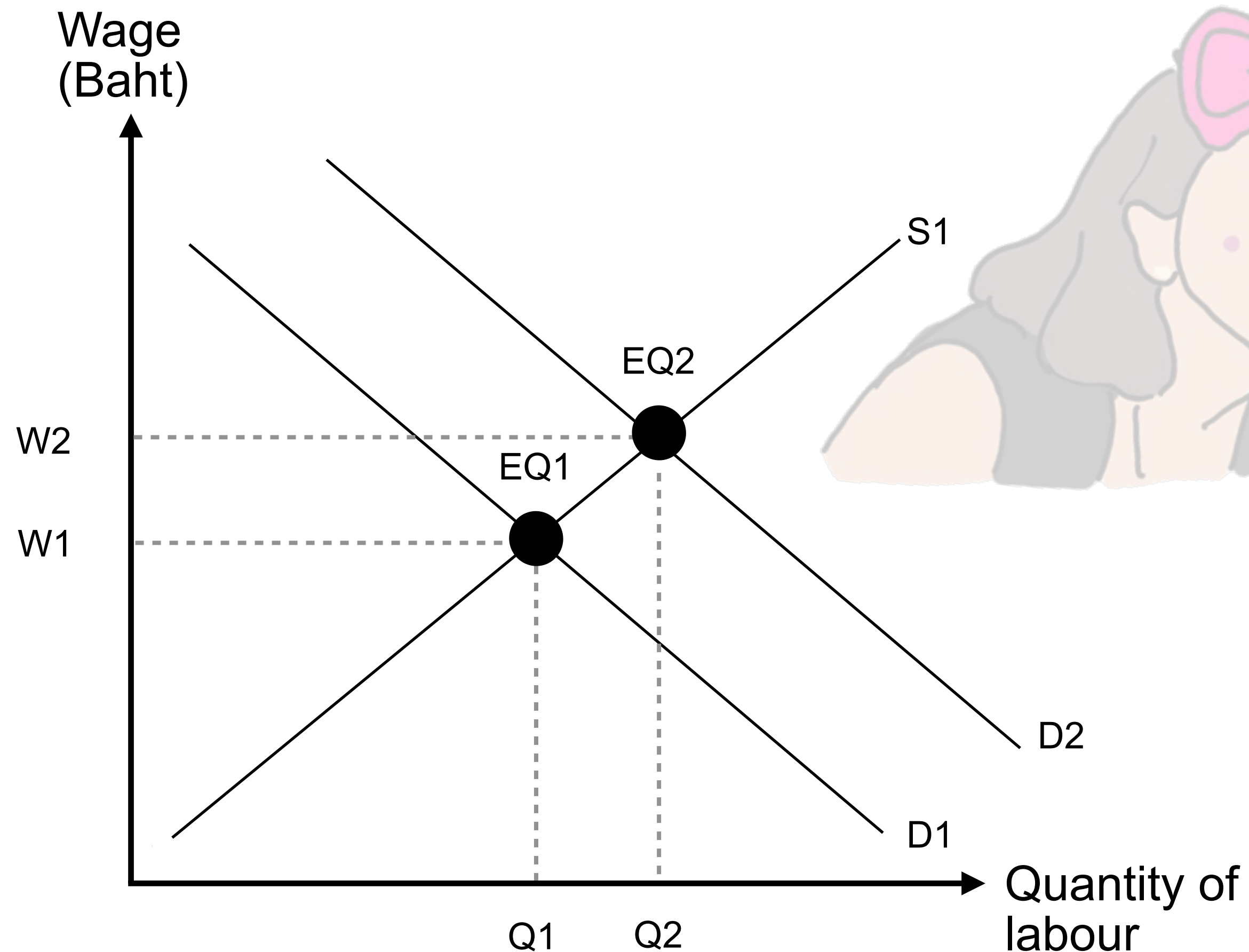
➔ The amount of workers that workers are willing and able to work at any wage level.



2. Wage determination

2.1 Change in the demand of labour

For example : increase in demand of labour



- **Demand of labour is a derived demand.**

- ➔ Demand of product ↑
- ➔ Firms have to employ more labour
- ➔ Demand of labour ↑

- **A rise in labour's productivity**

- ➔ Firms have lower cost
- ➔ Demand of labour ↑

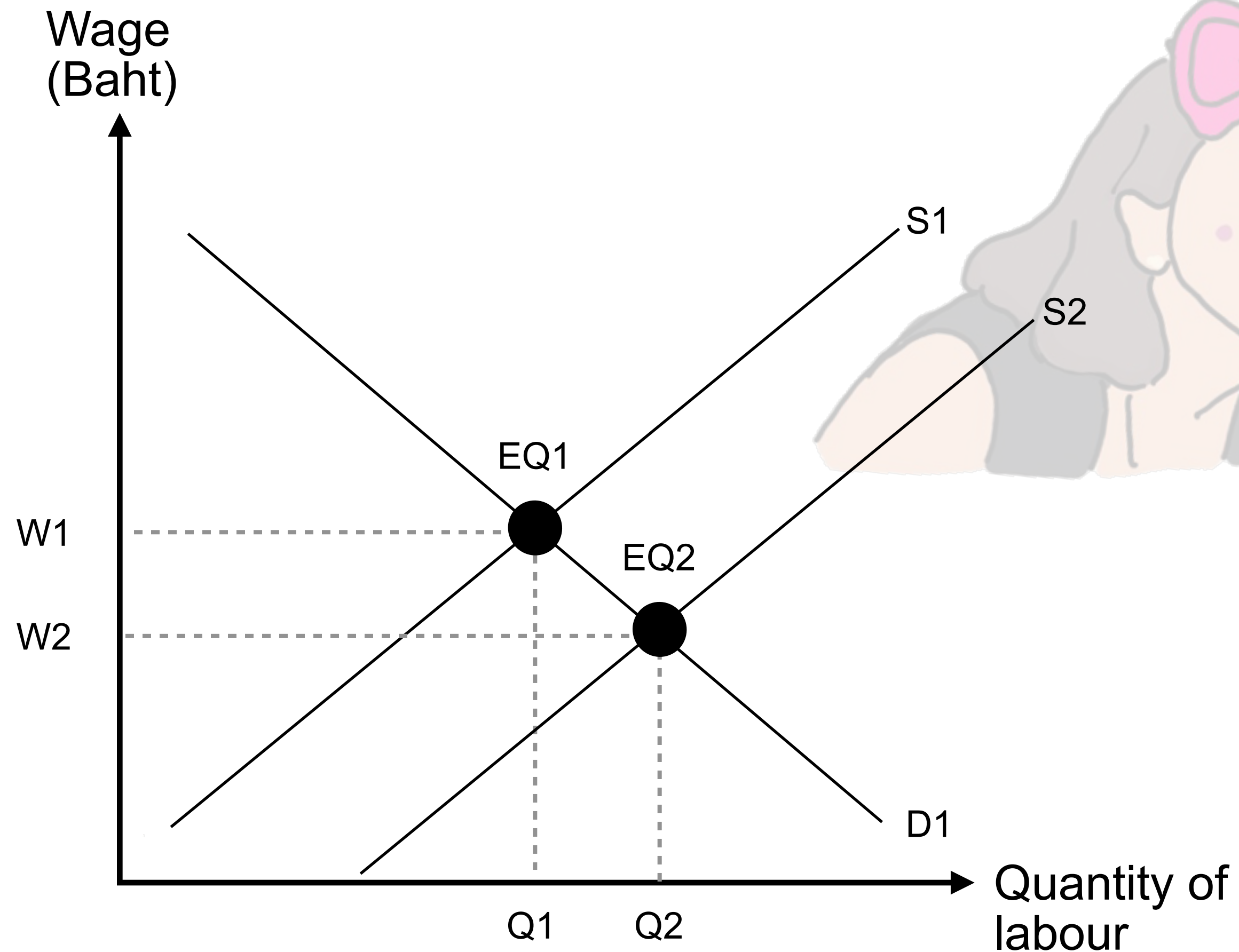
- **A rise in price of capital**

- ➔ Firms can replace capital by workers
- ➔ Demand of labour ↑

2. Wage determination

2.2 Change in the supply of labour

For example : increase in supply of labour



- **A rise in population and labour**
 - ➔ There are higher workers in the market
 - ➔ Supply of labour ↑
- **A decrease in qualification and length of training**
 - ➔ This will increase number of people eligible for the job.
 - ➔ Supply of labour ↑
- **A rise in non-wage benefits**
 - ➔ Eg. Car, Meals etc.
 - ➔ This can motivate labour to work
 - ➔ Supply of labour ↑

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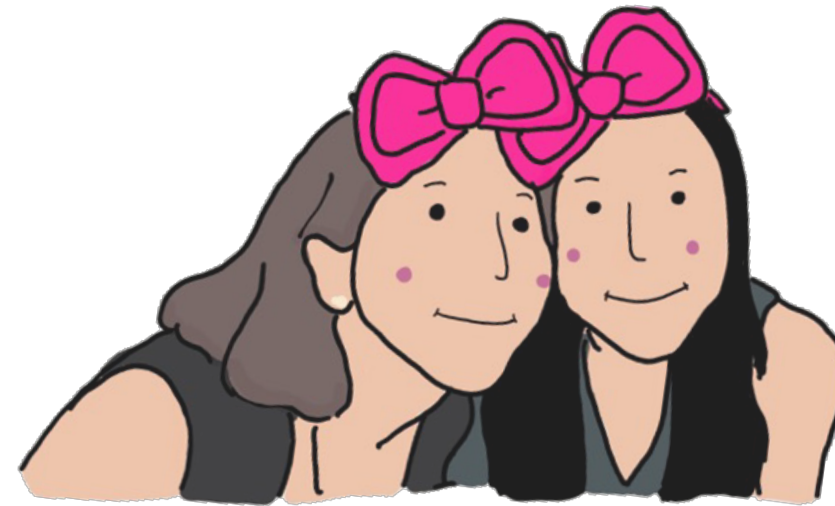
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MICROECONOMICS - Workers - Continued

The reasons for differences in earnings

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3.The reasons for differences in earnings

: Some people receive higher wage because

3.1 High demand of labour

: Workers have higher skills and productivity, it is difficult to replace workers by machines

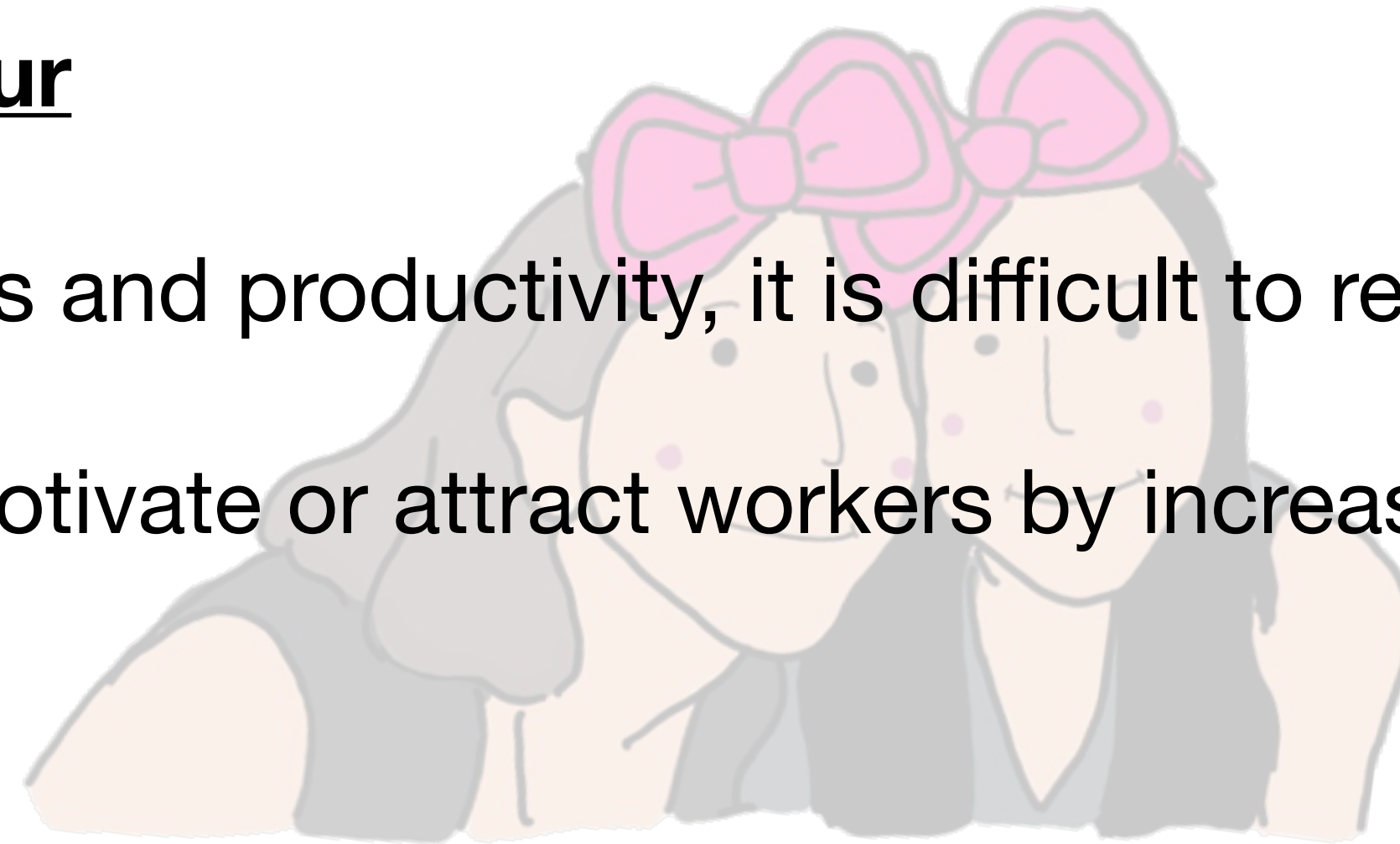
➔ Therefore, employers motivate or attract workers by increase in wages.

3.2 Low supply of labour

: The occupations require high qualification and training such as doctors

: Or Job is dangerous or workers often work in unsociable hours. Eg.Night shifts

➔ Therefore, employers motivate or attract workers by increase in wages.



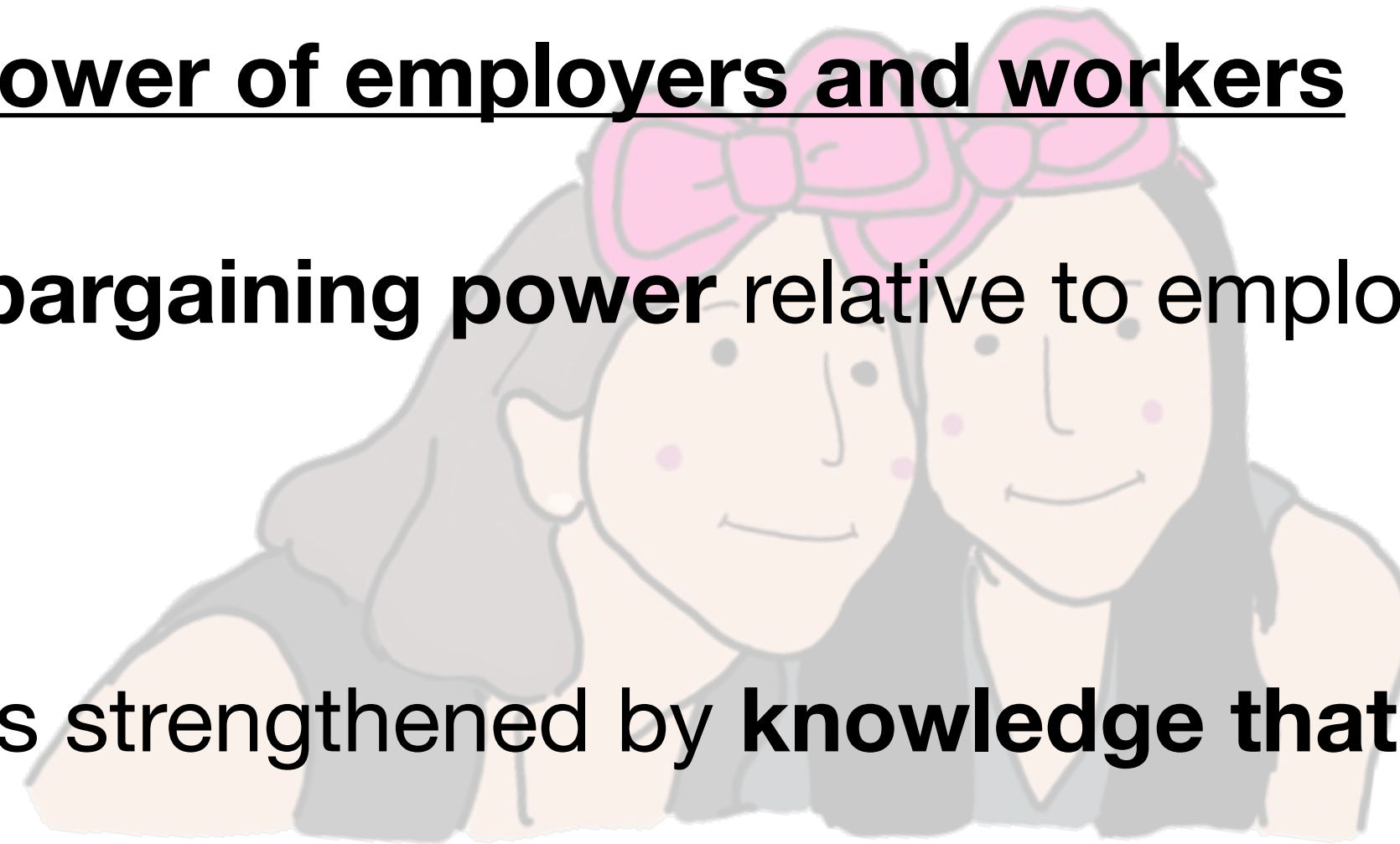
3.The reasons for differences in earnings

: Some people receive higher wage because

3.3 Relative bargaining power of employers and workers

: If **workers have strong bargaining power** relative to employers, workers are likely to receive higher wages.

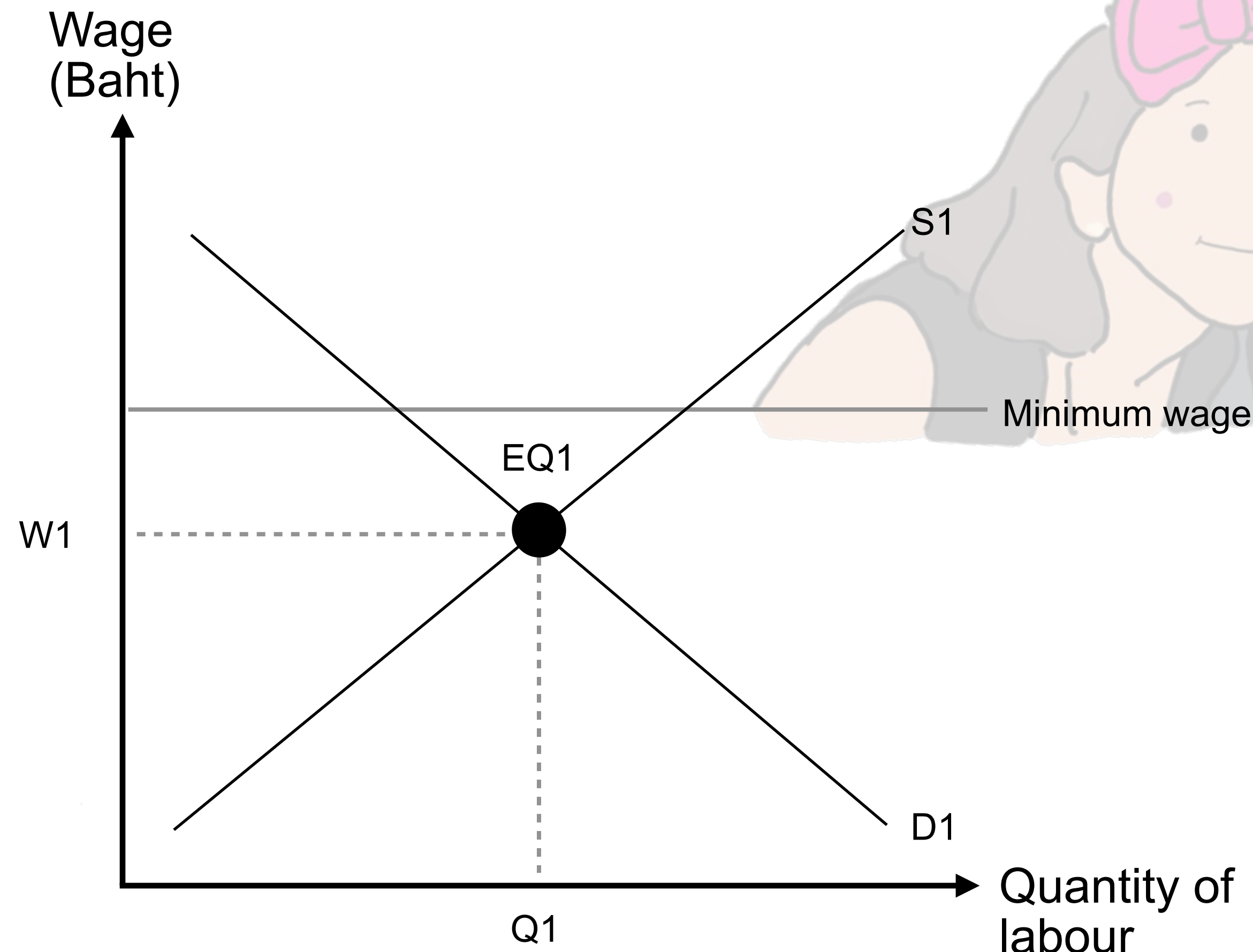
: This bargaining position is strengthened by **knowledge that capitals cannot replace workers or strong trade union.**



3. The reasons for differences in earnings

: Some people receive higher wage because

3.4 Government policy eg. Minimum wage



• **Minimum wage** : Wage is set by government for low paid workers, which located above the equilibrium.

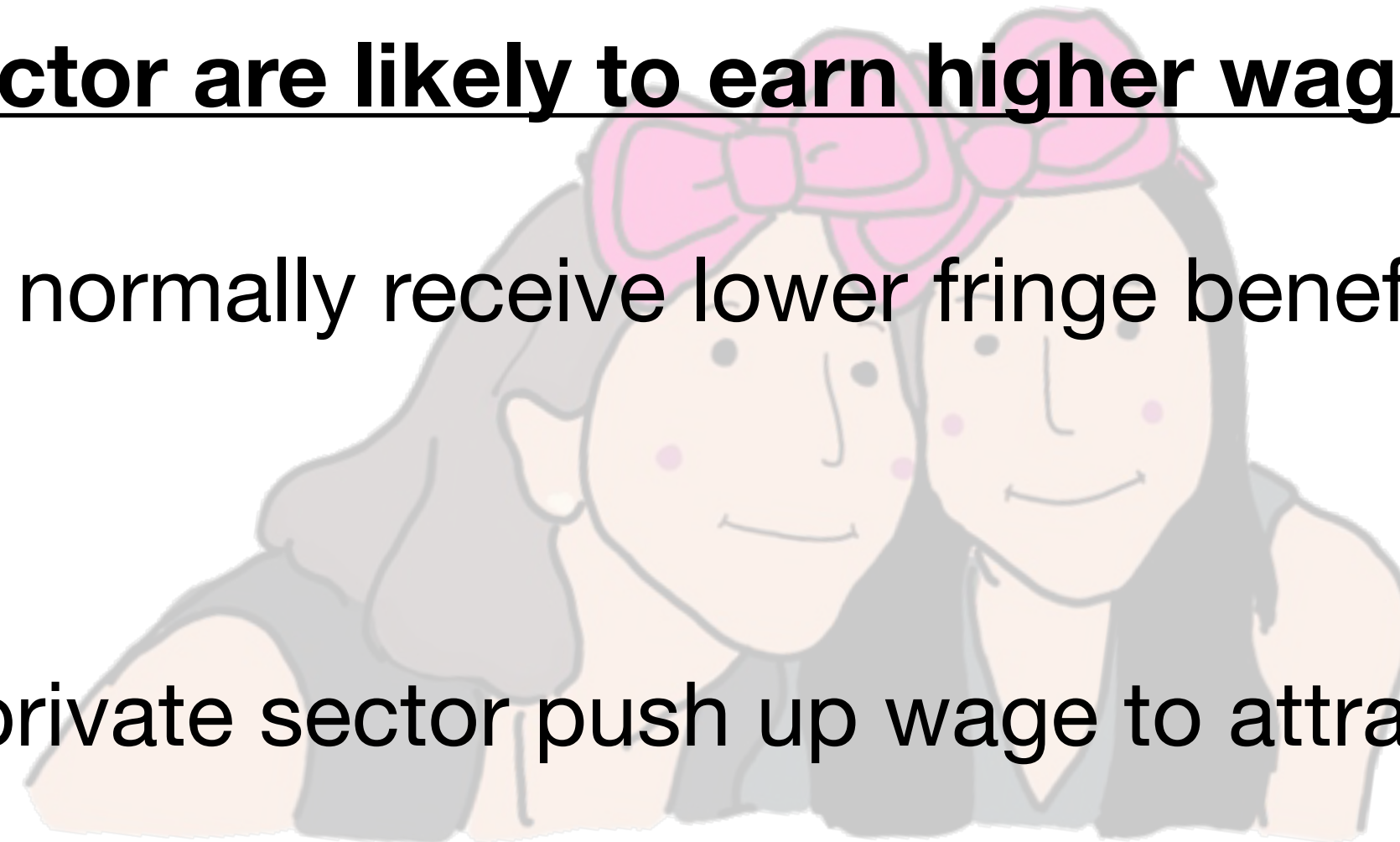
3.The reasons for differences in earnings

: Some people receive higher wage because

3.5 Workers in private sector are likely to earn higher wage than those public sector

: Workers in private sector normally receive lower fringe benefits and low job security than workers in public sector.

: Therefore, employers in private sector push up wage to attract labour to work in the private companies.



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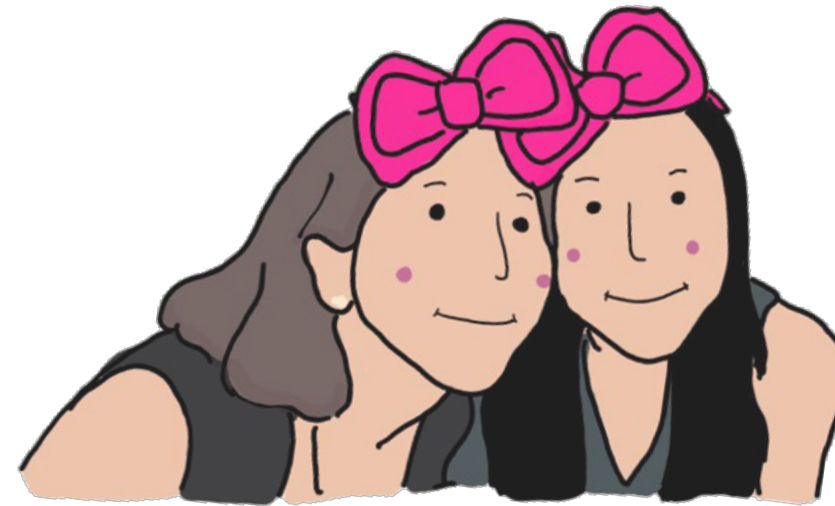
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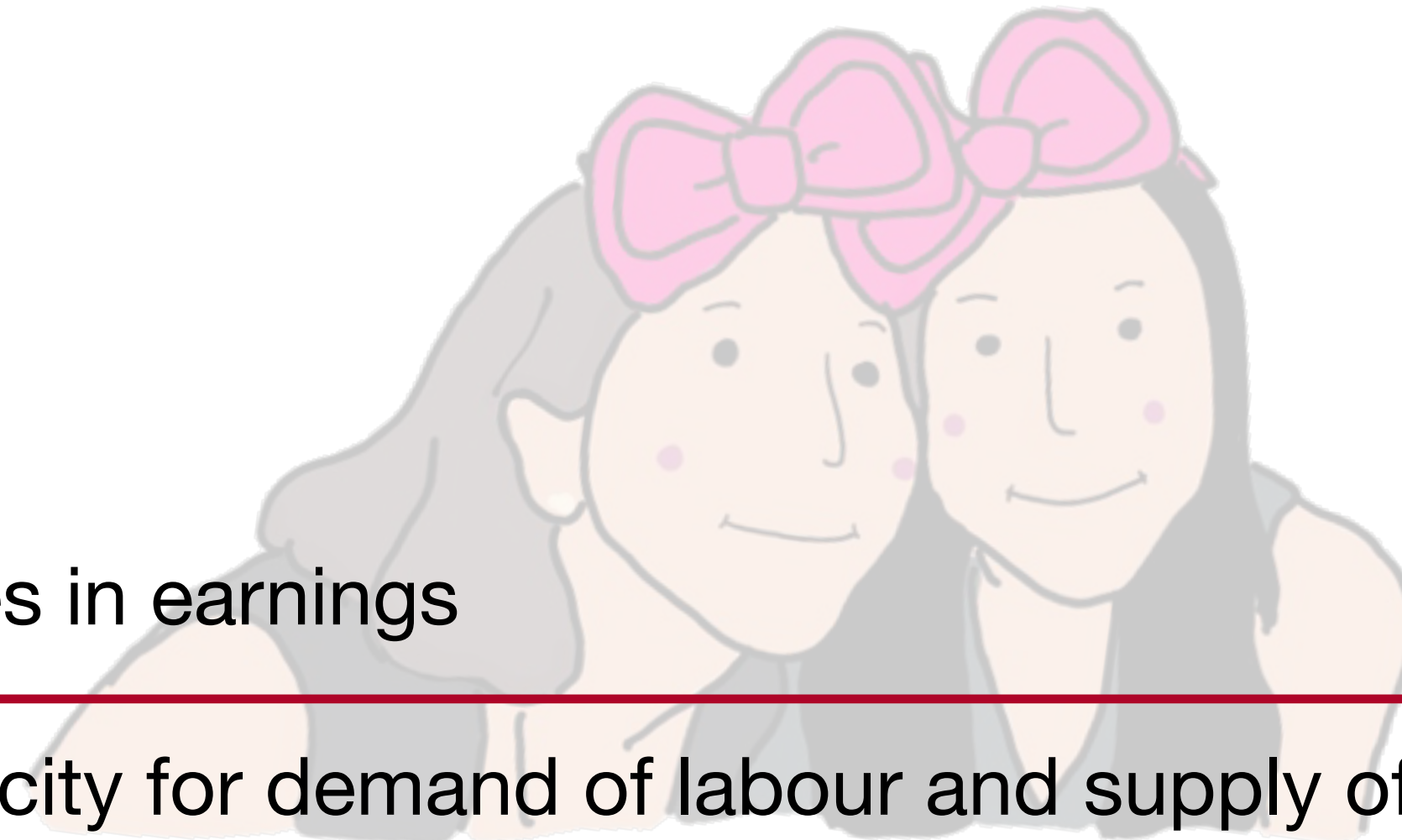


MICROECONOMICS - Workers - Continued (II)

By Kru P'Eve and Kru P'Da Knockout.Economics

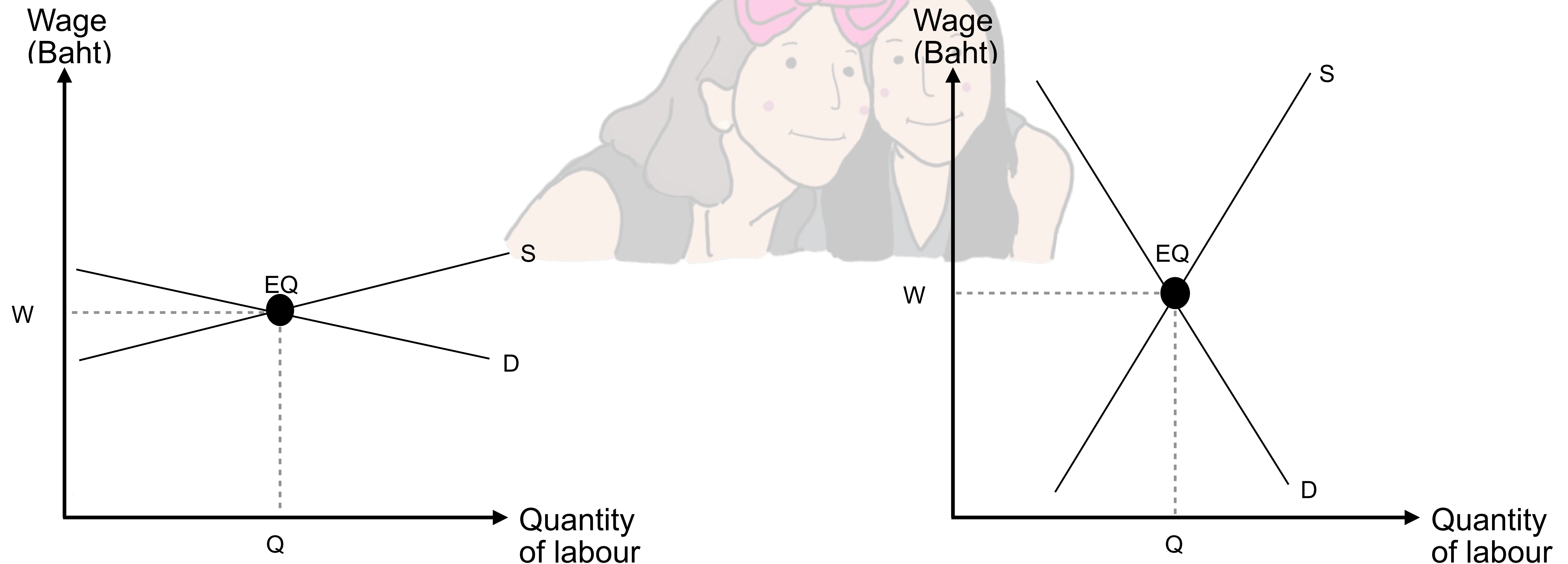
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4. The determinants of elasticity of demand for labour and supply for labour

- **Elasticity of demand for labour** : the responsiveness of demand for labour to a change in wage.
- **Elasticity of supply for labour** : the responsiveness of supply for labour to a change in wage.
- Demand & Supply of labour elastic
- Demand & Supply of labour inelastic



4. The determinants of elasticity of demand for labour and supply for labour

4.1 The determinants of elasticity of demand for labour

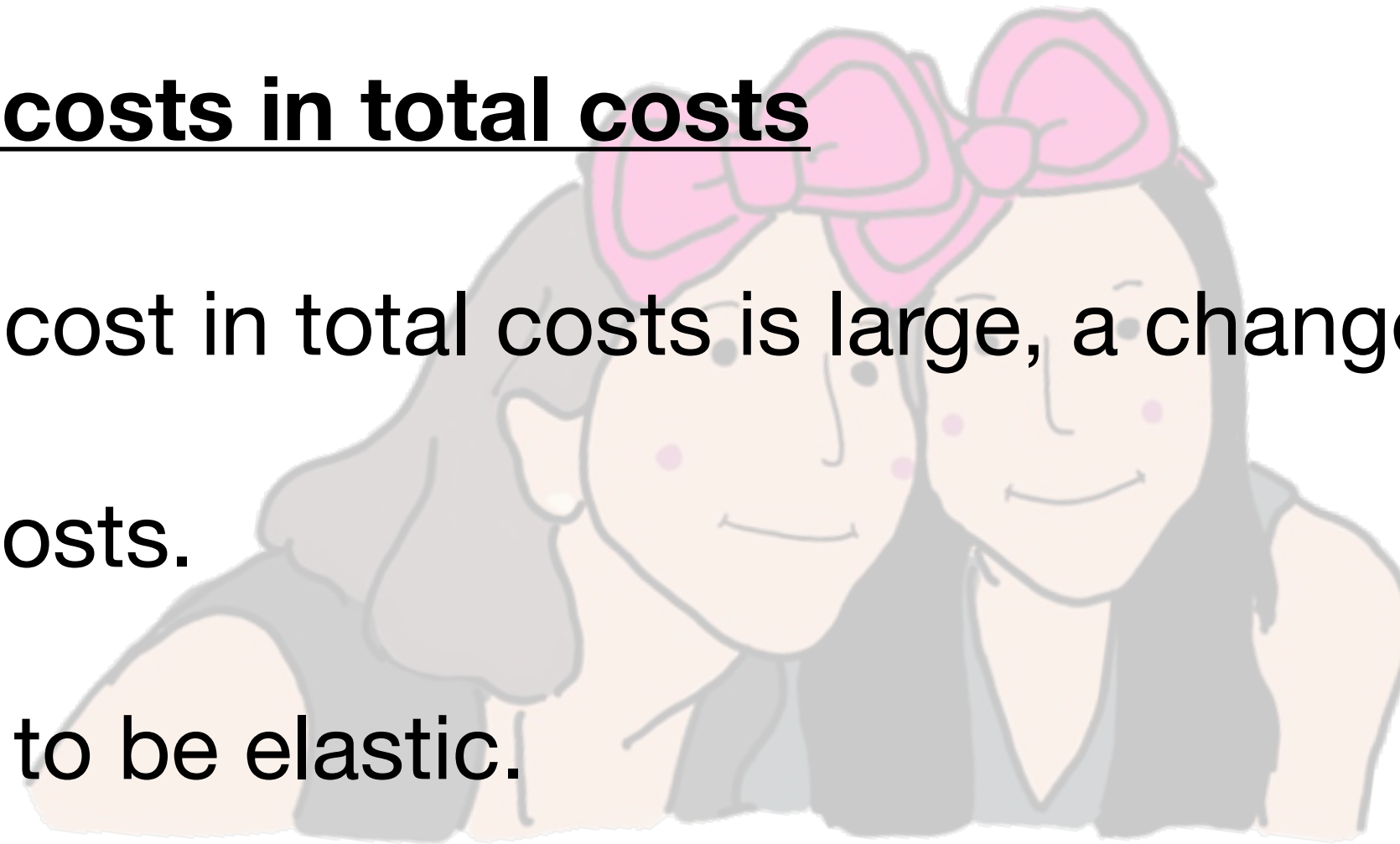
- The proportion of labour costs in total costs

➔ If the proportion of labour cost in total costs is large, a change in wages would have a significant impact on total costs.

➔ Demand of labour is likely to be elastic.

- The ease of about can be substituted by capital

➔ If workers can be easy to replace by machine or capital, demand of labour is likely to be elastic.



4. The determinants of elasticity of demand for labour and supply for labour

4.1 The determinants of elasticity of demand for labour

- The elasticity of demand for the product produced

➔ A rise in total labour cost contributes to a raise in price of products.

➔ If demand of product is elastic, demand of product will be decrease. As a result, demand of labour will be lower.

➔ Therefore, the elasticity of product is elastic then demand of labour is elastic too.

- The time period

➔ Demand for labor is usually elastic in long run because firms have time to arrange methods of production.

4. The determinants of elasticity of demand for labour and supply for labour

4.2 The determinants of elasticity of supply for labour

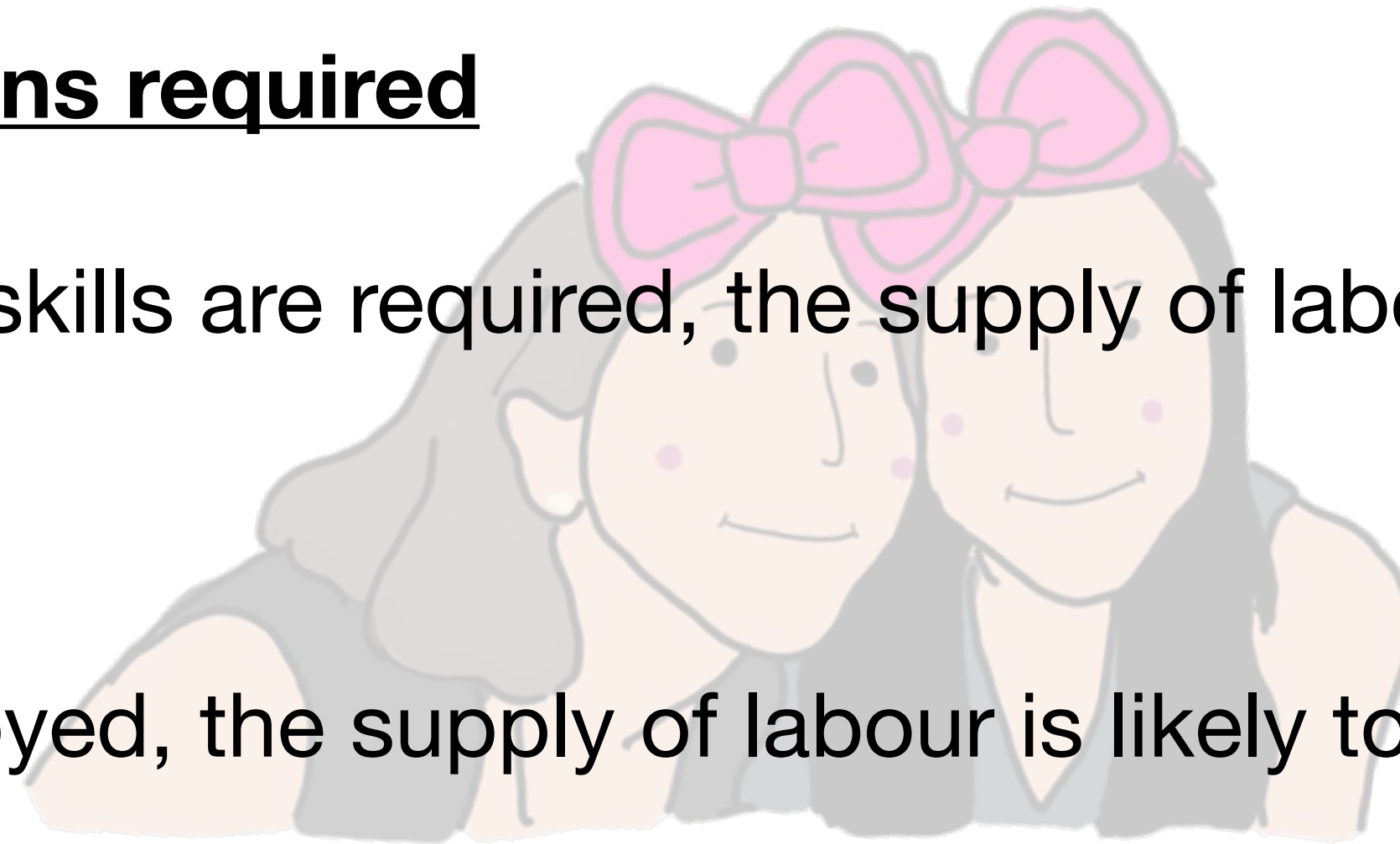
- The skills and qualifications required

➔ Higher qualifications and skills are required, the supply of labour is likely to be inelastic.

- The level of employment

➔ If most workers are employed, the supply of labour is likely to be inelastic

➔ Employers have to increase the wage rate significantly to motivate or attract workers to work in the businesses.



4. The determinants of elasticity of demand for labour and supply for labour

4.2 The determinants of elasticity of supply for labour

• The immobility of labour

- ➔ The harder workers find it to change jobs, or to move from one location to another location, the harder it will be for an employer to recruit more workers by increasing the wage rate.
- ➔ The immobility of labour makes the supply of labour inelastic.

• The time period

- ➔ The longer time period allows workers to recognise higher wages and undertake the jobs.
- ➔ Supply of labour is likely to be elastic in long run.

5. Specialisation and division of labour

- **Specialisation** : focus on particular product or tasks.
- **Division of labour** : When workers carries out one particular task instead of producing the whole goods and services.

Advantages

- Workers can do the task that what they are BEST at
 - ➔ Increase in productivity (Work faster & less error)
 - ➔ Lower average cost and higher total output
 - ➔ Also, high quality of goods and services
- Firms can reduce training cost.

Disadvantages

- Workers may feel bored
 - ➔ Lower productivity and higher average cost
 - ➔ Low morale and easy to resign and find other jobs
 - ➔ Therefore, firms might have higher recruitment cost.
- Workers have limited skills
 - ➔ Higher risk of being unemployed if their skills are no longer wanted
- If some workers are absent, no one cannot replace.
 - ➔ Firms might loss total production and revenue.

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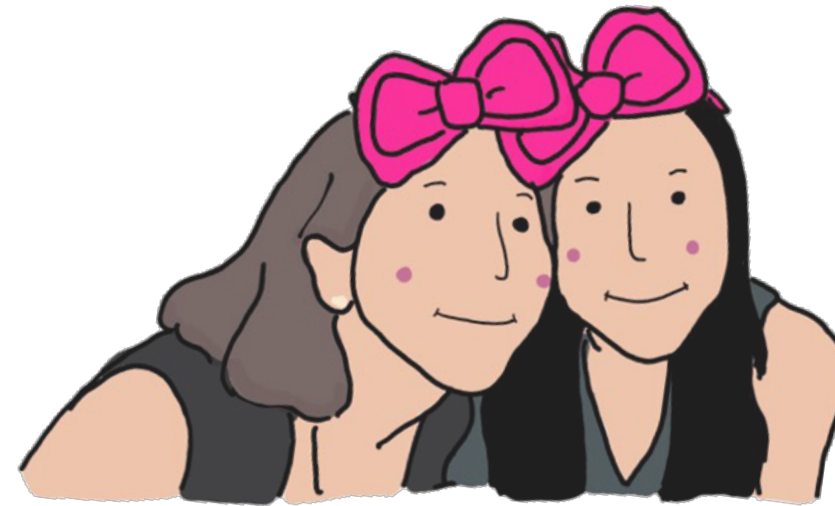
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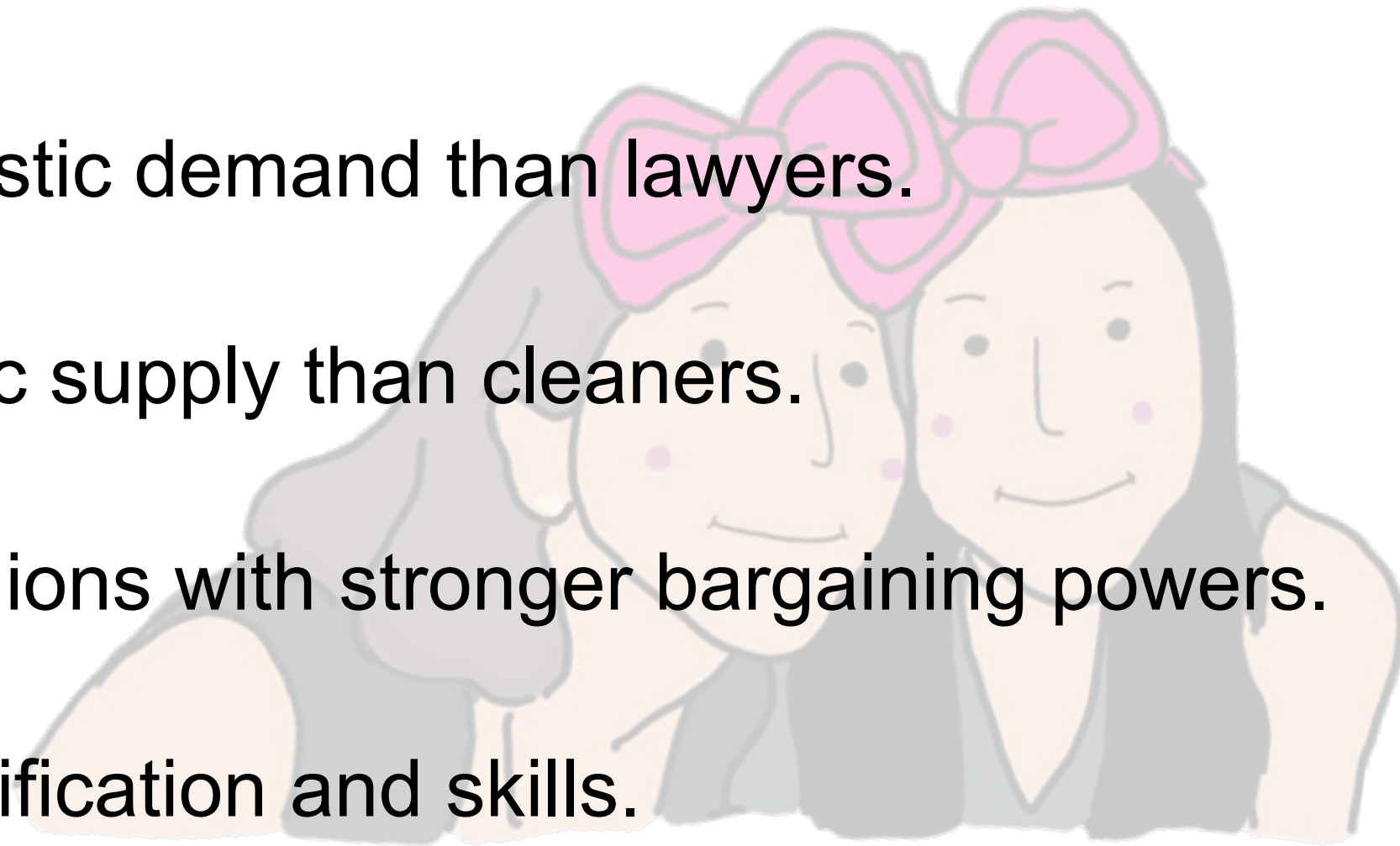
MICROECONOMICS - Exercise - Workers

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Exercise: MCQ

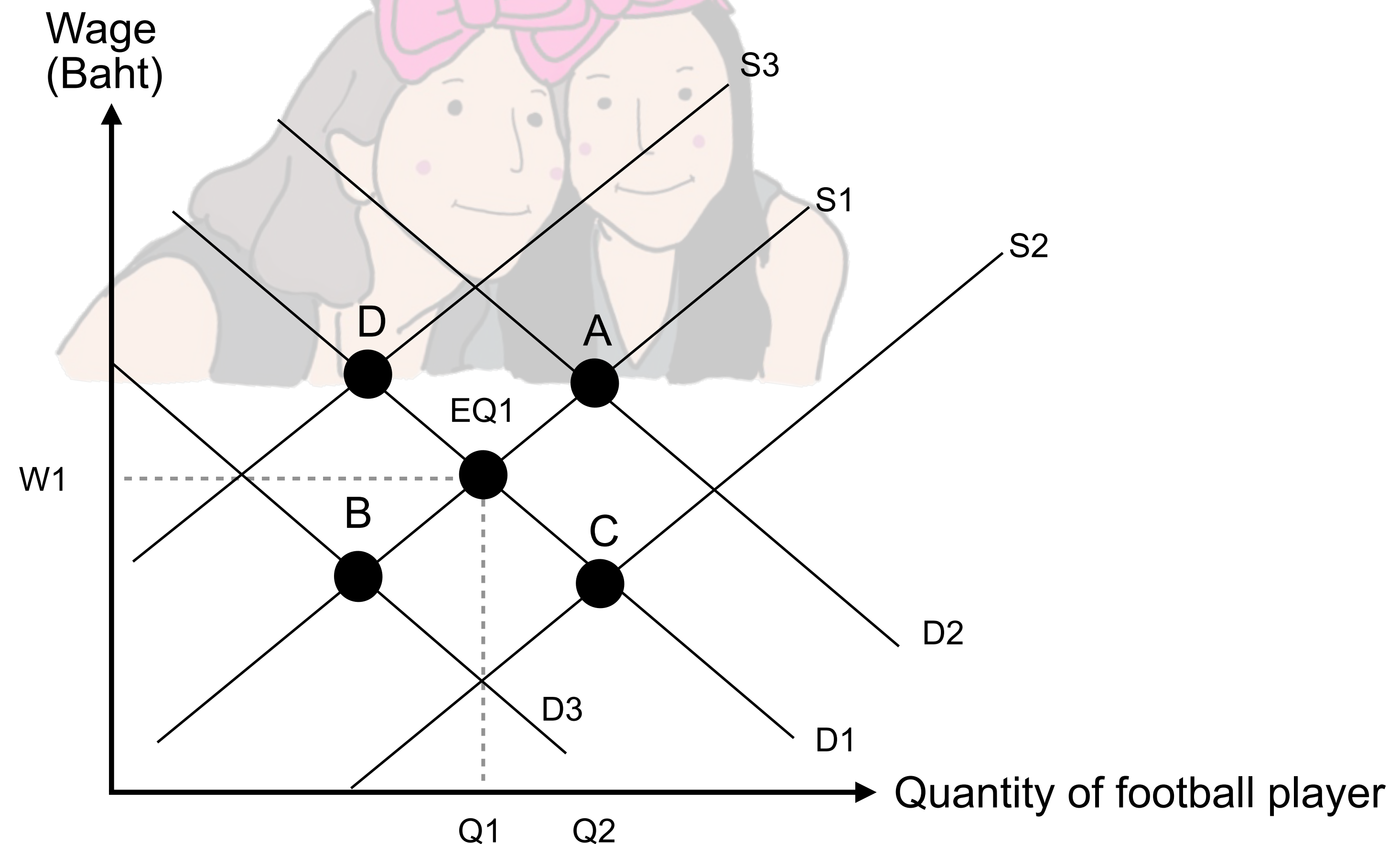
1. Which statement explains why the pay of lawyer is usually higher than the pay of cleaners?

- A. Cleaners have a more inelastic demand than lawyers.
- B. Lawyers have a more elastic supply than cleaners.
- C. Cleaners belong to trade unions with stronger bargaining powers.
- D. Lawyers have a higher qualification and skills.



Exercise: MCQ

2. Point EQ1 in the diagram represents the market for football players in a country. There is an increase in supply for football players. What is the new equilibrium point?



Exercise: Essay

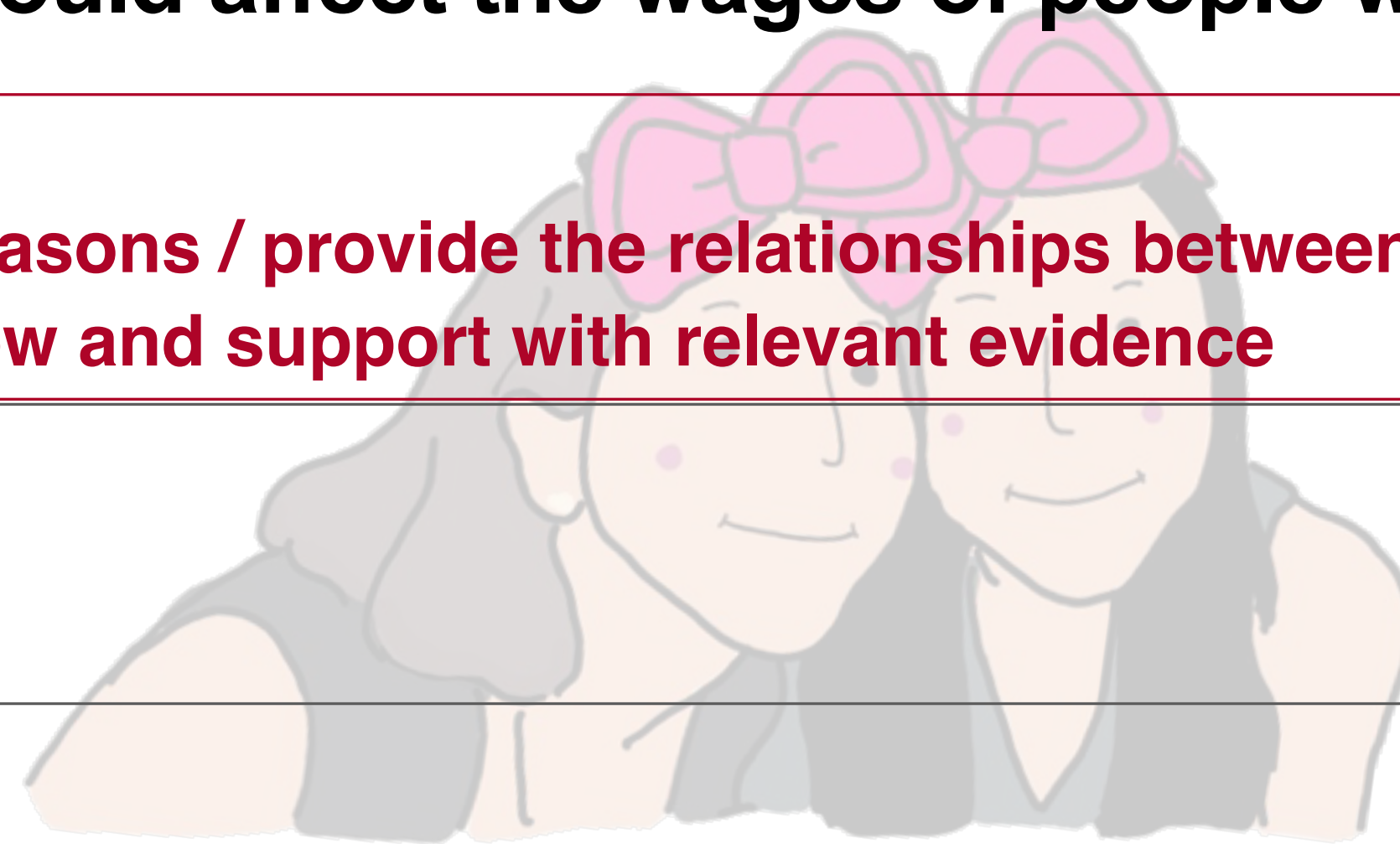
1. Explain, using a demand and supply diagram, how a decrease in the supply of labour in a particular industry would affect the wages of people working in that industry. [6]

Command Word:

Explain: set out purposes or reasons / provide the relationships between things clear / say causes and consequences , why and /or how and support with relevant evidence

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- Up to 4 marks : Diagram
- Up to 2 marks : Explanation



Exercise: Essay

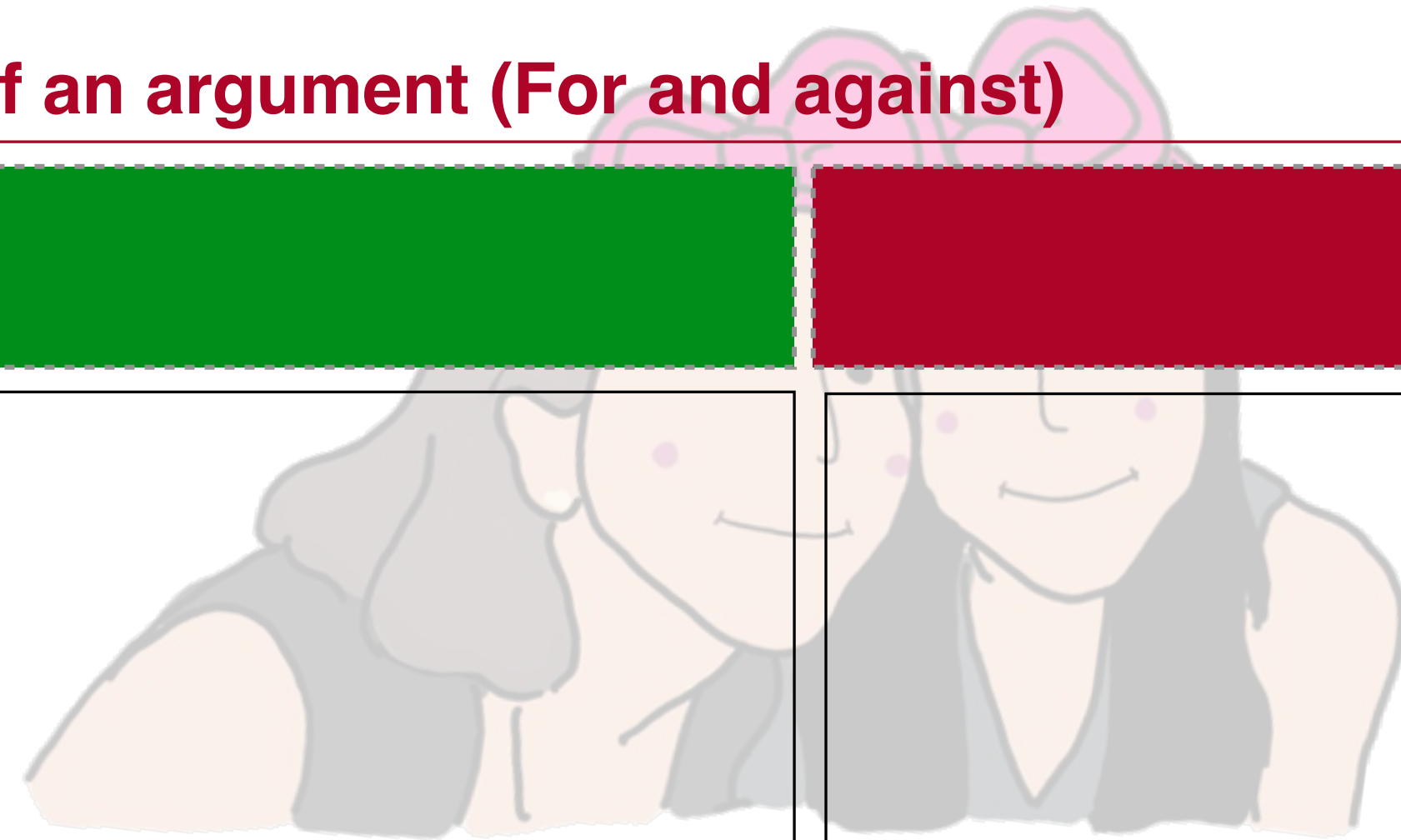
2. Discuss whether or not workers who have high qualification are always paid more than workers who have low qualification.[8]

Command Word:

Discuss: Set out both sides of an argument (For and against)

For

Against



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