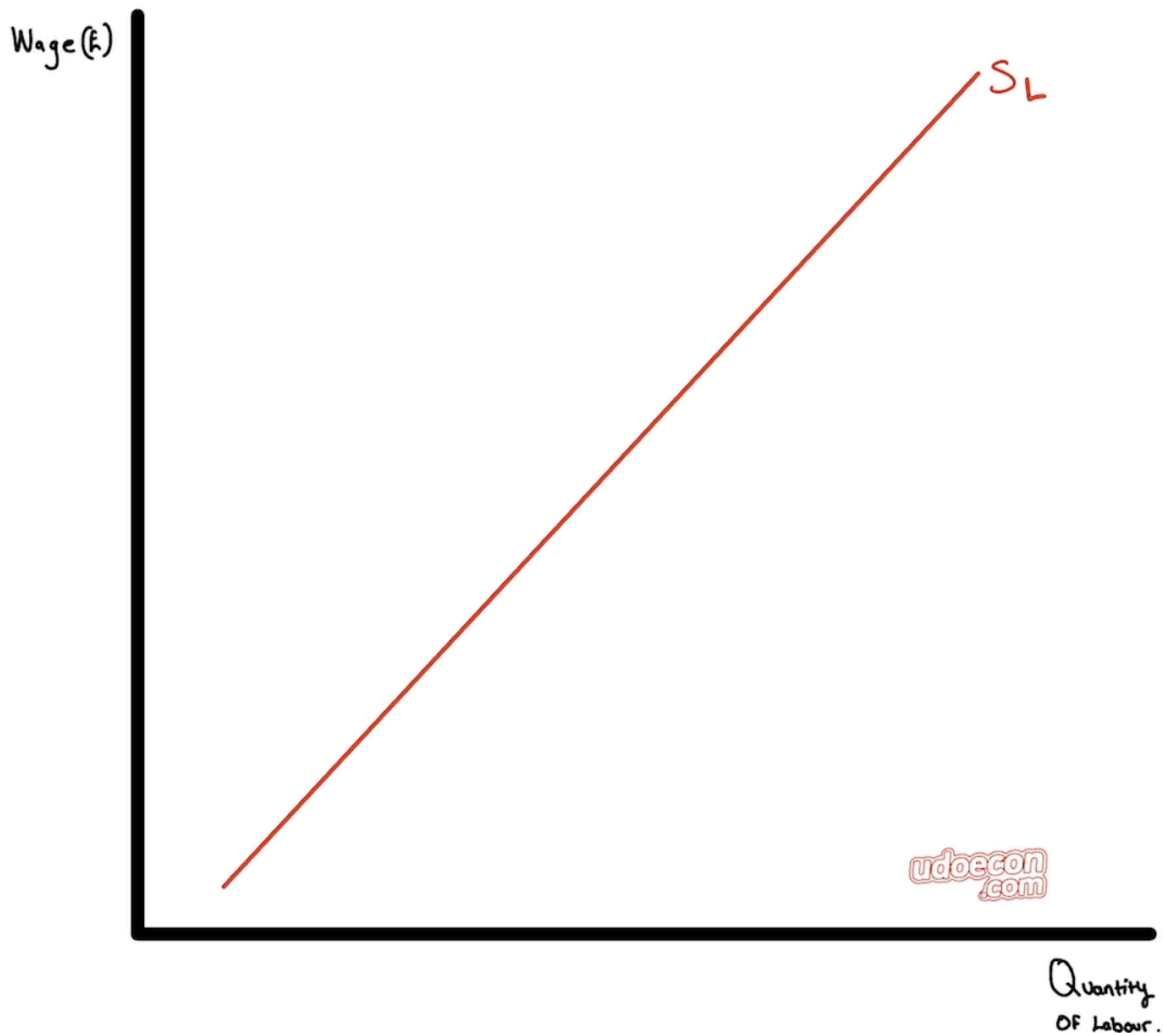


Supply of Labour

Labour supply is the amount of labour workers are willing and able to supply within a given time period.



Factors Affecting the Supply of Labour

Wage Rate

Higher wages usually increase the quantity of labour supplied.

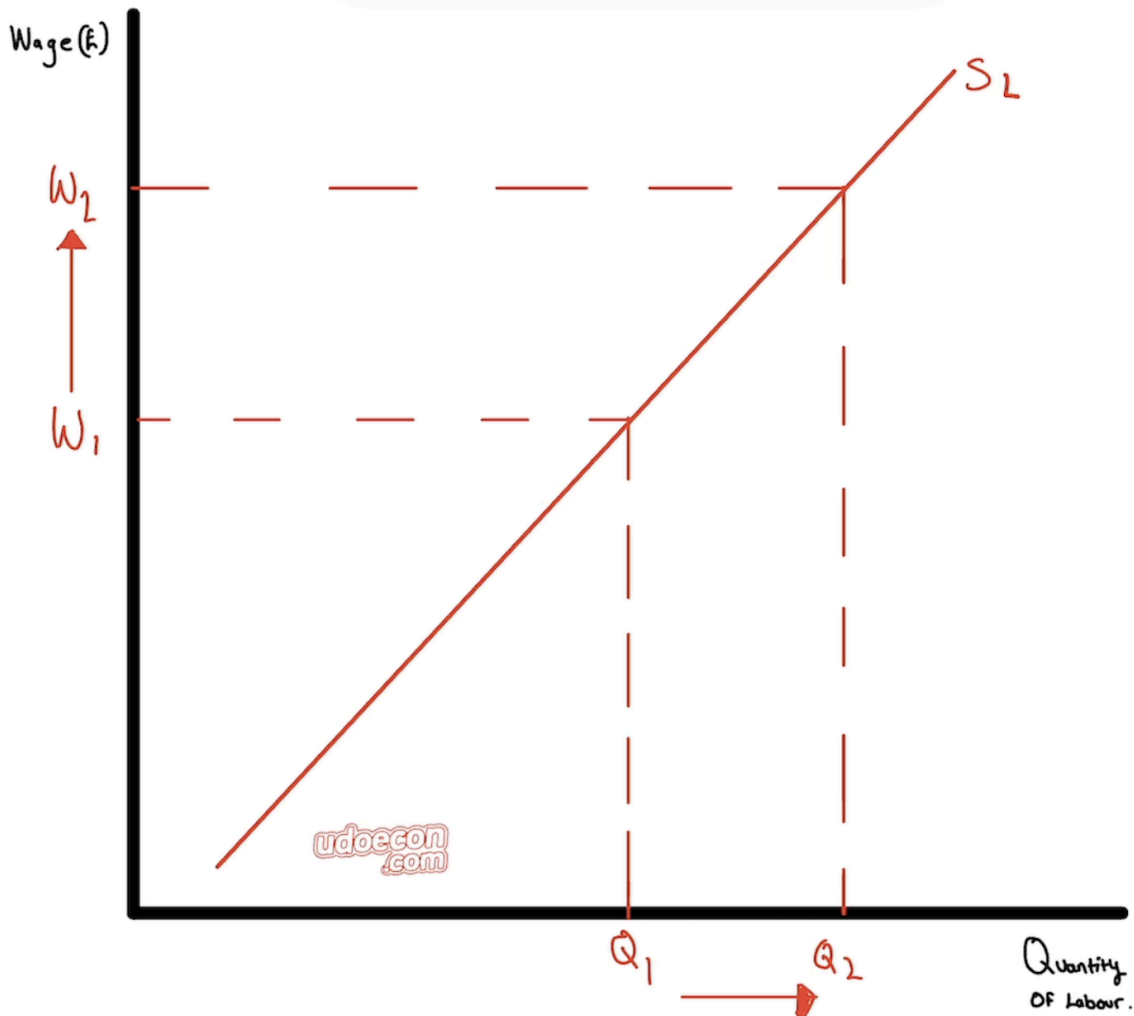
Wage $\uparrow$ $\rightarrow$ opportunity cost of leisure $\uparrow$ $\rightarrow$ greater incentive to work $\rightarrow$ quantity of labour supplied $\uparrow$

For example in April 2024 National Living Wage increased to £11.44/hr, incentivizing lower-income workers to supply more labor.

However, higher wages can also create an **income effect**:

Wage $\uparrow$ $\rightarrow$ workers can achieve their desired income while working fewer hours $\rightarrow$ quantity of labour supplied $\downarrow$

A change in the wage rate causes a **movement along the labour supply curve**, rather than a shift of the curve.



Non-pecuniary benefits

Workers do not make employment decisions based solely on wages. The attractiveness of a job can also depend on:

- Flexible working e.g Spotify offer 'Work from Anywhere' policies
- Holiday entitlement e.g Teachers
- Working hours e.g some uk firms offer 4-day working weeks

Better **Non-pecuniary benefits** $\uparrow$ $\rightarrow$ attractiveness of occupation $\uparrow$ $\rightarrow$ more workers willing to enter or remain in occupation $\rightarrow$ labour supply $\uparrow$

Welfare Benefits

Higher welfare benefits can reduce the financial incentive to work.

Welfare benefits $\uparrow \rightarrow$ **financial gain from working** $\downarrow \rightarrow$ **incentive to work** $\downarrow \rightarrow$ **labour supply** $\downarrow$

For example The UK's 2 Child Limit (restricting Universal Credit to the first two children) boosted labor supply as parents were forced to work more hours to cover family costs.

Barriers to Entry and Training Requirements

Some occupations require extensive qualifications or training before workers can enter.

Training requirements $\uparrow \rightarrow$ **barriers to entry** $\uparrow \rightarrow$ **fewer workers able to enter occupation** $\rightarrow$ **labour supply** $\downarrow$

For example, Becoming a UK GP requires 10+ years of education and clinical training thus limiting increase labour supply despite an increase in wage.

Migration

Migration affects the number of workers available in the labour market.

Net migration $\uparrow \rightarrow$ **working population** $\uparrow \rightarrow$ **labour supply** $\uparrow$

Conversely, **tighter immigration restrictions** $\rightarrow$ **fewer workers able to enter** $\rightarrow$ **labour supply** $\downarrow$.

For example International Medical Graduates account for 42% of the total UK licensed medical workforce

Demographic Changes

Changes in the size and age structure of the population can influence labour supply.

Working-age population $\uparrow \rightarrow$ potential workforce $\uparrow \rightarrow$ labour supply $\uparrow$

An ageing population can reduce labour supply:

Population ages $\rightarrow$ proportion of retired workers $\uparrow \rightarrow$ fewer workers participating in labour market $\rightarrow$ labour supply $\downarrow$

For example : An aging UK population has pushed economic inactivity to over 2.8 million people, shrinking the total potential labor supply.

Trade Union Power

Written by [udoecon.com](https://www.udoecon.com)

Trade unions can affect the attractiveness of working within particular occupations.

Trade union power $\uparrow$ $\rightarrow$ potentially higher wages + improved working conditions + greater job protection $\rightarrow$ occupation becomes more attractive $\rightarrow$ labour supply $\uparrow$

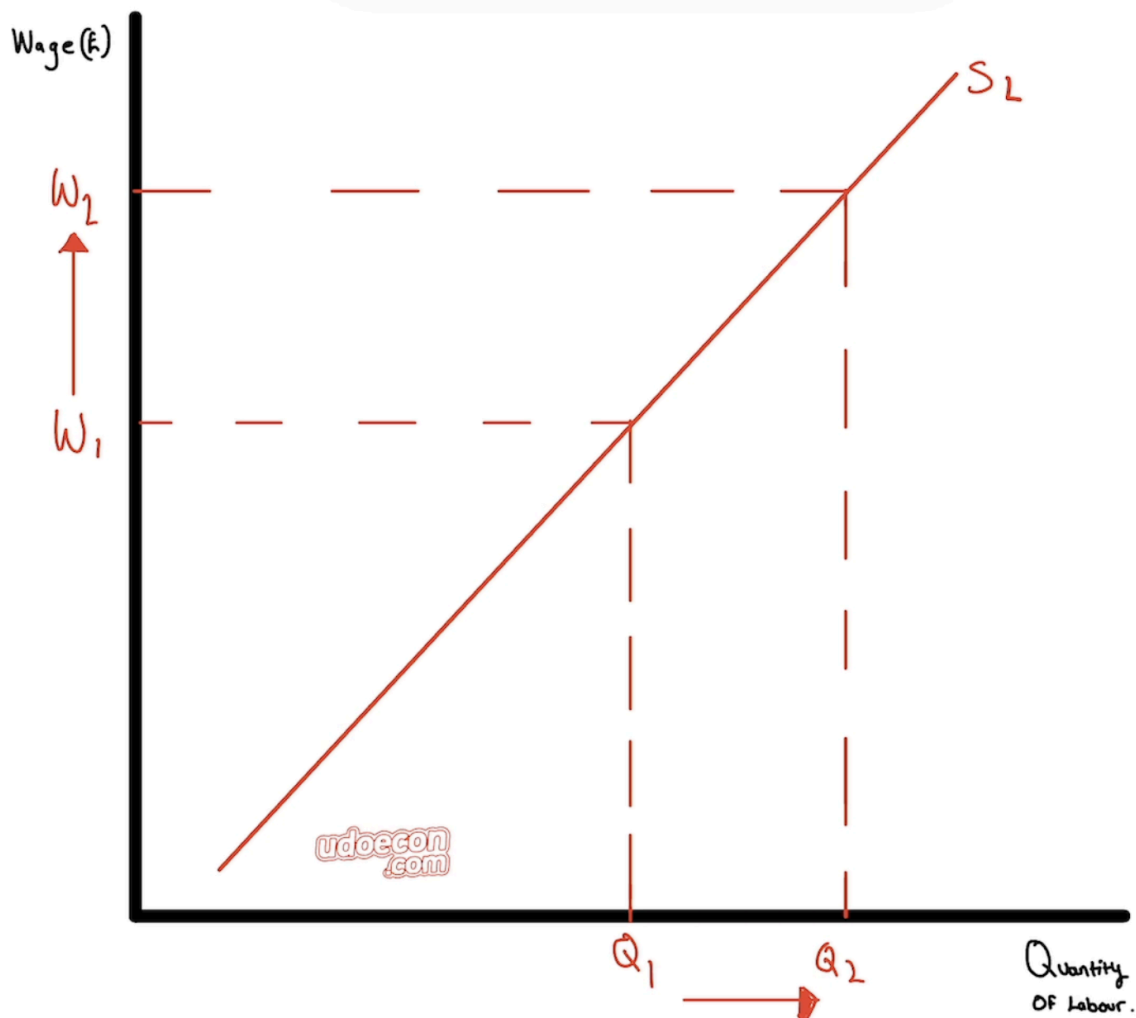
For example BMA (Trade union for doctors) negotiated a 22% increase in pay for doctors , increasing incentive for doctors to supply labour .

Labour Supply Curve

The labour supply curve is typically **upward sloping**.

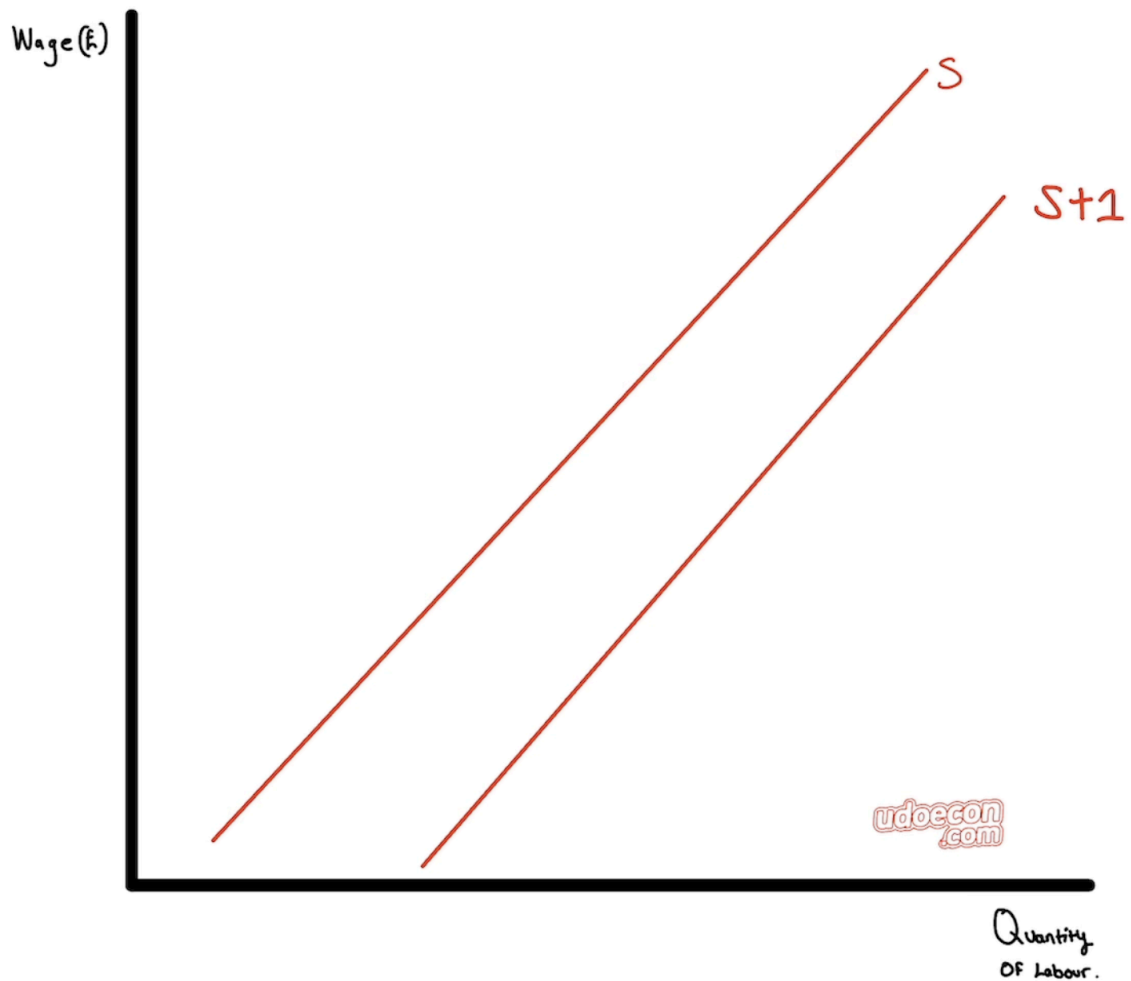
Wage $\uparrow$ $\rightarrow$ opportunity cost of leisure $\uparrow$ $\rightarrow$ incentive to work $\uparrow$ $\rightarrow$ quantity of labour supplied $\uparrow$

Therefore, an increase in wages causes a **movement up along the labour supply curve**.



A change in a factor other than the wage rate causes the **entire labour supply curve to shift**.

- Better working conditions $\rightarrow$ labour supply $\uparrow$ $\rightarrow$ supply curve shifts right
- Higher net migration $\rightarrow$ labour supply $\uparrow$ $\rightarrow$ supply curve shifts right



Labour Mobility

Labour mobility refers to how easily workers can move between different jobs (occupational) or locations(**Geographical**). Greater labour mobility makes it easier for workers to respond to changes in employment opportunities.

Wage Elasticity of Labour Supply

Wage elasticity of labour supply (WES) measures the responsiveness of the quantity of labour supplied to a change in the wage rate.

Factors Affecting Wage Elasticity of Labour Supply

Time Period

Labour supply tends to be more inelastic in the short run and more elastic in the long run.

Short run → workers have limited time to retrain / relocate → labour supply relatively inelastic

Long run → workers have time to retrain / gain qualifications / relocate → labour supply becomes more elastic

Skill and Qualification Requirements

Occupations requiring extensive qualifications tend to have more inelastic labour supply.

Qualification requirements ↑ → barriers to entry ↑ → fewer workers can respond to higher wages → more inelastic supply of labour

For example, despite a 22% pay rise negotiated by the BMA for doctors, the supply of labour will not suddenly rise due to the 5+ years of training needed to become a doctor.

Occupational and Geographical Mobility

Greater labour mobility makes workers better able to respond to wage changes.

Labour mobility ↑ → workers can switch occupations / locations more easily → responsiveness to wage changes ↑ → labour supply more elastic

For example UK housing unaffordability creates severe geographical immobility, workers in lower wage regions cannot easily relocate to high wage vacancies.

Rate of Unemployment

Higher unemployment means there is greater spare capacity within the labour market.

Unemployment ↑ → more workers potentially available to enter occupation → wage rises attract more workers → labour supply more elastic

Importance of Non-Pecuniary Factors

Some workers place significant value on factors other than wages, such as job satisfaction, working hours or making a difference.

Importance of non-monetary factors ↑ → workers less responsive to changes in wages → labour supply more wage inelastic