Labor Demand

Assumptions of Labor Demand Analysis

1. Demand for labor is a short run demand, i.e, the demand for labor, all other resources constant.

2. Demand is the demand for labor by one firm

3. The firm sells <u>output</u> in a perfectly competitive market.

4. The labor market is perfectly competitive. Wage taker firms
   (a) large number of buyers and sellers of labor
   (b) all workers have the same productivity (i.e. same marginal product)
   (c) Free entry, and exit

Labor demand depends on (a) the productivity (MP) of labor in producing a good and (b) the price (P) of the good that the workers produce. The product of (a) and (b), M * P , is marginal revenue product, MRP.

(1) Number of Workers (N)	(2) TP (Output)	(3) MP	(4) Product Price	(5) (2)*(4) TR	(6) (3)*(4) MRP
0	0	-	$2	0	–
1	7	7	$2	14	14
2	13	6	$2	26	12
3	18	5	$2	36	10
4	22	4	$2	44	8
5	25	3	$2	50	6
6	27	2	$2	54	4
7	28	1	$2	56	2