

Major Points - Labor Demand

1. Labor demand is MRP (Marginal Revenue Product)
2. Labor demand is derived from product demand. Changes in product demand initiate changes in labor demand.
3. Firms choose the profit maximizing amount of a resource, which for labor is the number of workers for which $MRP = MRC = W$
4. For a perfectly competitive firm, MRP declines as employment (N) increases due to the law of diminishing returns (i.e., MP declines as N increases)
5. For an imperfectly competitive firm, MRP declines as N increases due to the law of diminishing returns and due to declining product price (i.e., downward sloping product demand curve).
6. At a given wage, the imperfectly competitive firm hires fewer workers than the competitive firm because the imperfectly competitive firm produces less output.
7. The MRP of an imperfectly competitive firm is more wage inelastic than the MRP of a perfectly competitive firm because MRP of the imperfectly competitive firm declines more rapidly as employment (N) rises. See point 5.