

Topic: Labour

- **Labour is** defined as any human activity directed towards the production of wealth. The payment to labour is wages (a variable cost).
- Labour force **participation rate**: Is a measure that represents the proportion of the working-age population that is either employed or actively seeking employment.

Factors That Affect Demand for Labour

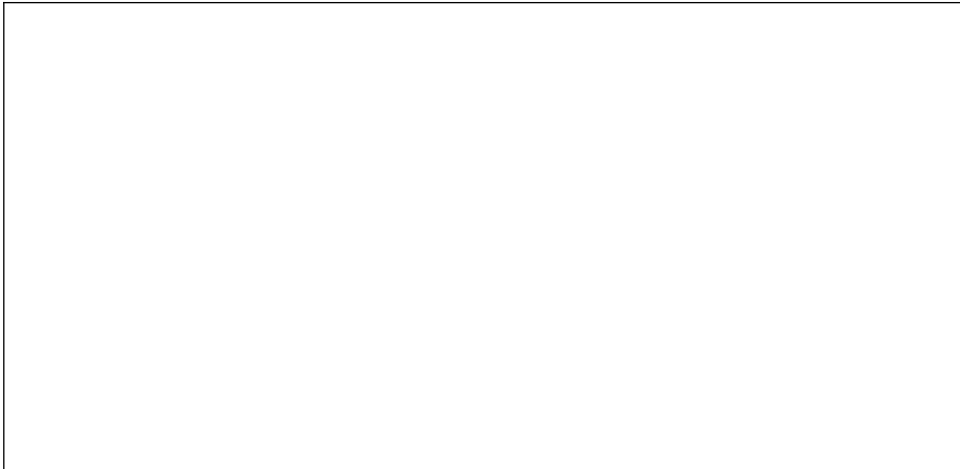
Factor	Explanation
Wage rate	<ul style="list-style-type: none"> • The lower the wage rate, the higher the demand for labour • If wage rate increases, then cost to employer increases, which may lower the demand for labour
Demand for output / derived demand	<ul style="list-style-type: none"> • If there is an increase in demand for the firm's output, there may be an increase in demand for labour • During recessionary times, demand for output falls, so does demand for labour
Marginal revenue productivity of labour (MRP)	<ul style="list-style-type: none"> • The more productive the worker, the more revenue they will generate than their wage rate • This may increase the demand for demand.
Price for other factors of production	<ul style="list-style-type: none"> • Prior to employing more labour, the firm would compare the cost of the additional labour with that of other factors of production • Eg., capital to the additional cost of labour to determine the most competitive
State subsidies	<ul style="list-style-type: none"> • If the state were paying subsidies for the hiring of additional labour, then this would encourage employment of more staff

Factors Affecting Supply of Labour

Factor	Explanation
Wage levels	<ul style="list-style-type: none"> • Higher wages in recent years act as an incentive for more people to supply labour. However, with the recent lowering of wages, we may see a fall in this figure.
Rates of income tax	<ul style="list-style-type: none"> • In the past a reduction of income tax acted as an incentive for people to join the workforce.
Labour mobility / migration	<ul style="list-style-type: none"> • The workforce in Ireland has become more mobile. • There are fewer barriers in place preventing the movement of workers. With EU enlargement, the free movement of labour is increasing
Participation rate	<ul style="list-style-type: none"> • The number of people willing to work within the 15-65 age groups has increased. • More women are working and people were once retired are willing to take up part-time employment

Diagram of Labour Market

- Labour market equilibrium occurs where the demand for **labour (DL)** is equal to the **supply of labour (SL)**
 - The **DL is the demand by firms for workers – firms** demand more labour as the wage rate decreases, which results in a downward-sloping demand curve
 - The **SL is the supply of labour by workers – workers** supply more labour as the wage rate increases, which results in an upward-sloping supply curve
- Individual firms are price takers in the labour market, as they have to accept the wage rate that workers are being paid in the industry
 - If they offer a lower wage, they will likely struggle to recruit workers
 - If they offer a higher wage, there will be a large number of workers applying to work there



*In the labour market for graphic designers, the equilibrium wage rate is W and the equilibrium quantity is Q. At this point **the DL = SL***

Diagram Analysis

- The market for graphic designers is in equilibrium where **DL = SL**
- The equilibrium wage is W and the quantity of labour is Q
- There is no excess supply of labour
- There is no excess demand for labour

The equilibrium wage rate: This is when the demand and supply curves of labour are brought together. It is here where we find the equilibrium wage rate.

MRP and MPP

- The amount a business uses a factor will be determined by its contribution to the business and how much has to be paid for that factor. To help us understand this, we need to study:
 - **Marginal revenue productivity (MRP):** The extra revenue earned when an additional unit of labour/ is employed.
 - **Marginal physical productivity (MPP):** the extra output produced when an additional unit of a factor of production is employed

Example of MRP

Number of workers	Total Revenue (€)	Marginal revenue Productivity (€)
1	120	
2	200	
3	260	
4	310	
5	350	

Why does MRP slope downwards from left to right?

- The law of diminishing marginal returns**
As more workers are employed their marginal product will begin to decline
- The law of demand**
In order to sell a larger quantity, the business will have to reduce the price of their product. As a result of this the revenue earned from each unit of output declines.

Factors affecting Marginal Revenue Productivity (MRP)

Factor	Explanation
Productivity of the factor	<ul style="list-style-type: none"> The more productive each additional factor employed is, the more MRP that factor will earn.
The selling price of the output	<ul style="list-style-type: none"> If the selling price obtained on the market is rising or constant (not falling), then the higher will be that factor's MRP.
The law of demand	<ul style="list-style-type: none"> On the market, the law of demand dictates that in order for more to be sold, then the price must be reduced – this affects the marginal revenue obtained by the firm.

Why is Ireland's labour productivity so high? (see ranking of most [productive countries](#))

Factor	Explanation
Education / Training	<ul style="list-style-type: none"> High skill level and training means that employees can complete tasks quickly and efficiently.
Presence of MNCs	<ul style="list-style-type: none"> MNCs in Ireland are major employers; they offer high wages, rewards, training and managerial expertise, all which improve productivity.
Mobility of labour	<ul style="list-style-type: none"> As a member of the EU and a base for MNCs, Ireland can attract workers from all over the world. Talented workers can be more productive, and talented managers can motivate workers to be more productive.

What Factors Improve Productivity / Efficiency of Labour

Factor	Explanation
Education / Training	<ul style="list-style-type: none"> The better the training / education attained by the worker, the more productive they will be.
Degree of specialisation	<ul style="list-style-type: none"> By concentrating on performing a single task, workers become faster and more skilful and therefore more efficient.
Quality of other factors	<ul style="list-style-type: none"> The better the quality of other factors (tools, machinery) which the workers use, the more efficient the worker.
Management expertise	<ul style="list-style-type: none"> Good managers can get the best out of their workforce, therefore increasing output.

MRP theory of wages

The MRP theory of wages states workers will be hired up to the point when the marginal revenue product is equal to the wage rate. If the marginal revenue brought by the worker is less than the wage rate, then employing that labour would cause a decrease in profit.

The marginal revenue productivity of the fourth worker is €50; therefore, the workers from 1 to 4 receive the MRP, but hiring the fifth worker makes a loss of €10.

Difficulty in measuring / calculating MRP

- There is usually a contribution of both capital and labour
- Services aren't sold on the market

Marginal Physical Product (MPP)

Number of workers	Total Output	Marginal Physical Product
1	40	40
2	65	
3	80	
4	90	
5	95	

As we can see the total output of the fifth worker is 95 units; however, the 5th worker only contributes 5 units (MPP 5 units)

Marginal Physical Product (MPP) depends on:

- **Quality of the factors:** If the quality of the factors used improves, then workers become more efficient and additional output will be produced.
- **Training provided for the factors:** If the factors are trained, they become more skilled, resulting in an increase in efficiency and more output.
- **Expertise of the entrepreneur:** If the entrepreneur is expert in organising the production unit, then each factor will be more productive and work to their maximum efficiency
- **Law of diminishing marginal returns:** As each additional unit of factor is used, a point will be reached where each additional output produced will decline

2026 Mock

(a) The figures below represent the Marginal Physical Product of Labour and the Marginal Revenue Product of Labour in a firm.

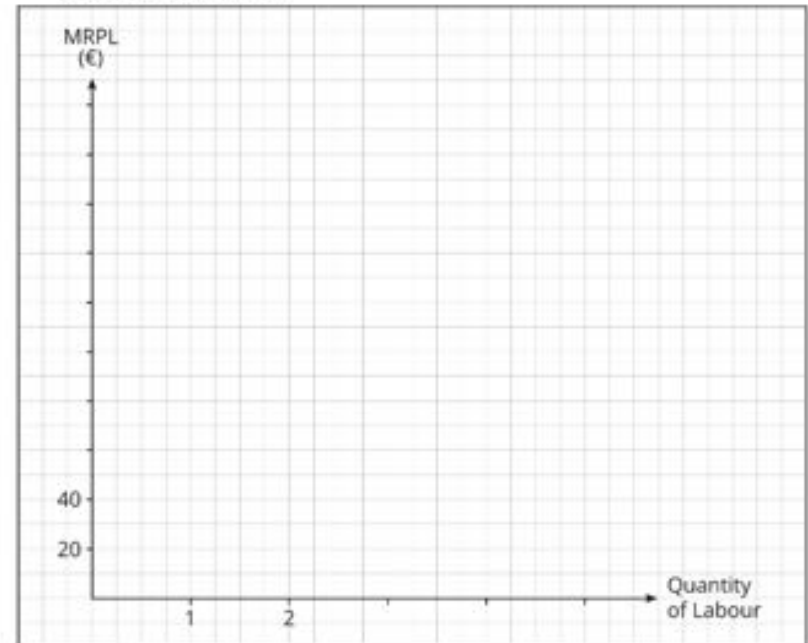
(i) Calculate the missing figures A, B and C in the table below. (Show your workings)

Number of Workers	Total Output (units)	Marginal Physical Product of Labour (MPPL)	Price per Unit (€)	Marginal Revenue Product of Labour (MRPL) (€)
1	6	6	20	120
2	14	A	20	160
3	24	10	20	B
4	32	8	20	160
5	35	3	20	C

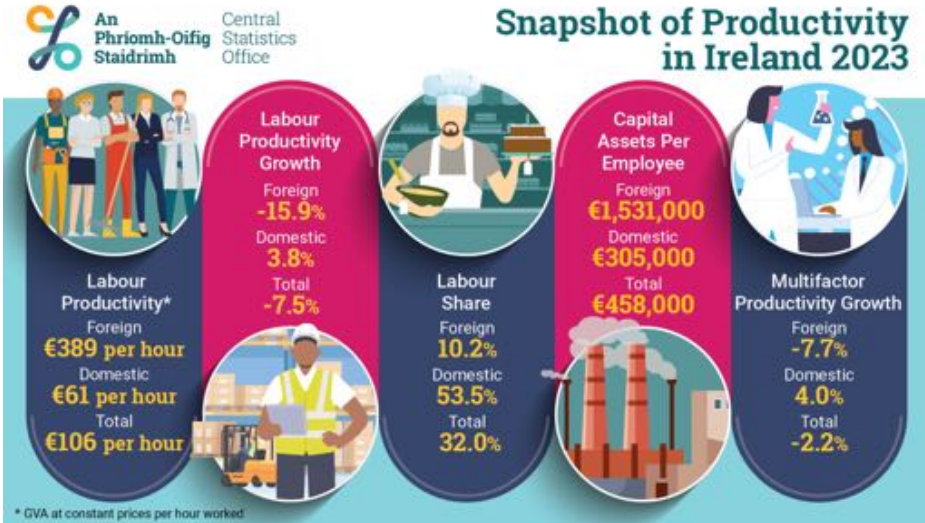
Workings:

A:	B:	C:
Answer:	Answer:	Answer:

(ii) Using the figures obtained in the table above, draw and label the marginal revenue product of labour (MRPL).



Analysing Data: Productivity



"T-TRACK"

- **T – Trend** – State the trend
- **T – Timeline** – Provide the timeline
- **R – Reference figures** – Use the figures
- **A – Analyse difference** – Calculate the difference
- **C – Cause** – Give a reason for the change
- **K – Keep it clear** – Ensure your explanation is clear and concise

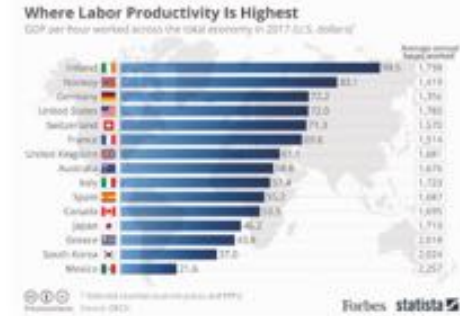
Analyse productivity growth

Trend:	Time(line):
Figures:	
Difference:	
Cause/Reason:	

Exam 2024

According to the Organisation for Economic Co-operation and Development (OECD), Irish workers are the most productive in the world, based on GDP per hour worked.

The bar chart below shows the labour productivity of workers in different countries.



(a) Outline two possible reasons why Ireland has the highest labour productivity rate in the world.

1.
2.

(b) Explain how a firm could increase the productivity of labour.

(b) Labour is one of the factors of production.

(i) Explain the factor of production **labour**.

(ii) Explain two factors that influence **geographical mobility of labour**.

1.
2.

(iii) Explain two ways the government can possibly increase **geographical mobility of labour**.

1.
2.

(b) Explain, with the aid of a labour market diagram in each case, how equilibrium wage rates are determined in a free labour market **and** a labour market where a trade union has negotiated a minimum wage.

A free labour market:
Diagram:
A labour market where a trade union has negotiated a minimum wage:
Diagram:



Median Weekly Earnings 2024*



*All data refers to gross earnings. Median weekly earnings; half of employments earn more than this amount and half earn less.

CSO.ie

(i) Identify the sector with the highest earnings and with the lowest earnings.

Sector with the highest earnings	
Sector with the lowest earnings	

(ii) Outline one reason why Dublin might have higher median weekly earnings than Donegal.

(iii) Explain one way the Irish Government could help increase the median weekly wage in Donegal.

(a) Ireland remains close to full employment with some employers experiencing shortages of skilled labour in different sectors of the economy.

(i) Explain the factor of production **labour**.

Explanation:

(ii) State two sectors of the Irish economy which are currently experiencing a shortage of skilled labour.

1.
2.

(iii) Outline one economic measure the Irish government **or** employers could take to help increase the supply of skilled labour in the economy.

Place a tick (✓) in the relevant box below which one you are answering.

Irish government	Employers

Economic measure:

(b) The chart below, adapted from the CSO, shows the year-on-year percentage changes in the Residential Property Price Index (RPPI) for Ireland from March to August, 2024.



(i) Using the data in the chart above, calculate the percentage increase in the RPPI from March 2024 to August 2024. **Show all your workings.**

Workings:

Answer:

(ii) Rising property prices is affecting the labour market in Ireland. Discuss two economic effects which this development may have on the **Irish labour market**.

1.

2.

The infographic below shows the Labour Force Survey from Quarter 1, 2024.



(a) Explain the meaning of the **participation rate**.

(b) Analyse the reasons for the annual % change in employment from 2022 to 2024.

Exam Q

(b) Outline two factors which may affect an individual company's demand for labour.

1.
2.