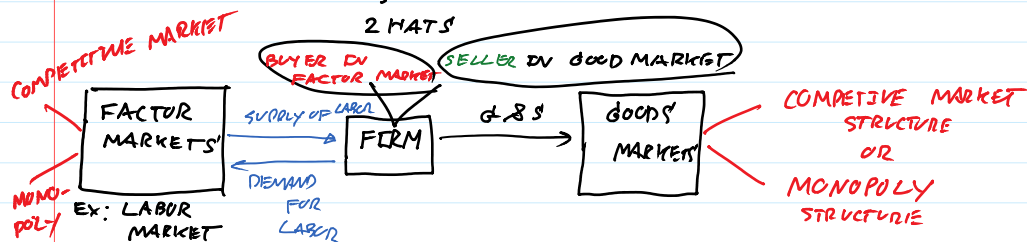


FACTOR MARKETS

READ: PINDYCK, CH. 14.



MAIN QUESTION: GIVEN TYPES OF GOOD MARKET & FACTOR MARKET, HOW MANY WORKERS A FIRM SHOULD EMPLOY TO MAXIMIZE ITS PROFITS?

BIG PICTURE:

FACTOR SELLER MARKET	FACTOR BUYER MARKET	GOOD MARKET	
		COMPETITIVE	MONOPOLY
COMPETITIVE	COMPETITIVE	I	II
	MONOPOLY	III	-
MONOPOLY	COMPETITIVE	IV	
	MONOPOLY	V	

①

GOOD MARKET $\Rightarrow$ COMPETITIVE

FACTOR MARKET $\Rightarrow$ COMPETITIVE

'MANY FACTOR BUYERS'
'MANY FACTOR SELLERS'

DEFINITION

VALUE OF MARGINAL PRODUCT OF LABOR (VMP_L):

$$VMP_L = MP_L \cdot P$$

EX:

$$MP_L = 100 \text{ UNITS/WORKER/DAY}$$

$$P = 20 \text{ BAHT/UNIT}$$

$$VMP_L = MP_L \cdot P = 100 \cdot 20 = 2000 \text{ BAHT/WORKER/DAY}$$

ADDITIONAL REVENUE RESULTING FROM THE SALE OF ADDITIONAL OUTPUT BY THE USE OF ONE ADDITIONAL UNIT OF AN INPUT (= LABOR)

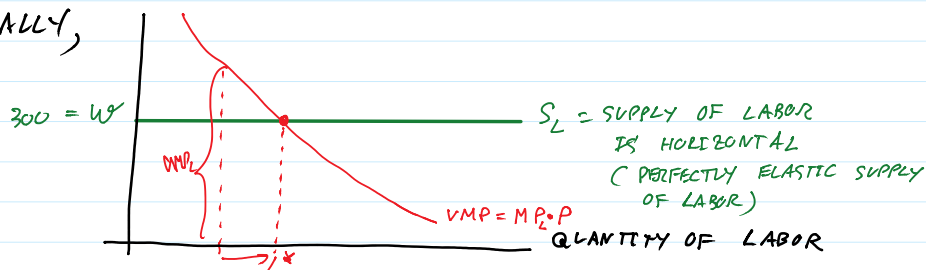
IF $VMP_L > W$, KEEP HIRING MORE WORKERS

IT IS PROFITABLE TO HIRE MORE LABOR IF VMP_L IS AT LEAST AS LARGE AS THE WAGE RATE, w :

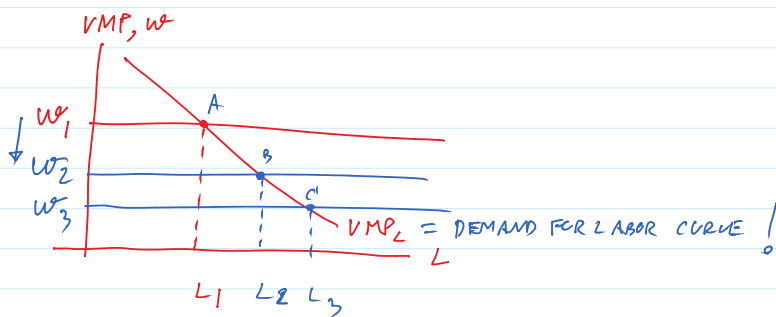
$$VMP_L \geq w.$$

→ HIRING RULE

GRAPHICALLY,



IN A COMPETITIVE LABOR MARKET



L	MP	P	$VMP_L = MP_L \cdot P$
0	-	-	-
1	10	20	200
2	10	20	200
3	10	20	200
4	10	20	200
5	10	20	200
6	10	20	200