

Economics of business case questions

Chapter 6 Labour Market

P142 Business case questions

1. **What do you think determines the pay of a vice-chancellor?**
How easy it is to recruit; caliber and experience of person required; what that person could earn in another job; the benefits they will bring to the university by doing the job
2. **Is £300,000 too much to pay a vice-chancellor? Is it too much to pay anyone relative to what?**
May want to consider how it compares to other jobs inside and outside of the university; may want to consider the cost relative to other costs and income
3. **Do you think the government should intervene to determine how much vice-chancellors are paid? What about other jobs?** How would the government set the pay? would it be at a level that made it difficult to recruit the right person? why is it the government's decision? The danger is the government intervention affects the efficient allocation of resources; people may not be attracted into certain jobs. May be question of what we perceive as fair v what is efficient in the free market.

P145 Question

What might be the consequences in an economy if real wages are falling?

- May mean less purchasing power for employees which could affect demand in the economy
- May mean greater demand for labour as it is cheaper but less supply of labour as less incentive to work

P146 Questions

1. **Did pay levels ever actually fall in the period covered above? When, and how do you know?**
Between February 2012 to 2015 the real wage is below 100 (the base); this means the real wage was less in real terms than 2015 whereas earlier real wages had been above 2015 levels.
2. **Why do you think pay grew faster from August 2015 onwards compared to the period from 2012 to August 2015?**
Would depend on demand for labour; this may have been relatively high pulling up nominal wages more than prices have increased.

P147

Number of employees	Employ	Reason
1	y	Value of extra output exceeds extra cost of employing
2	y	Value of extra output exceeds extra cost of employing
3	y	Value of extra output equals extra cost of employing
4	n	Value of extra output is less than extra cost of

		employing
5	n	Value of extra output is less than extra cost of employing

P147 Quick check

For each of the following statements, say whether it is true or false.

- a. Demand for labour is a derived demand. TRUE
- b. Efficient wage theory means managers may pay more than the market wage. TRUE
- c. Profit-maximizing managers will employ staff up to the point when the value of marginal product equals the marginal cost of labour. TRUE

P150

Questions

1. Why does low labour productivity matter (a) to businesses; (b) to the economy; (c) to the government?

- a. Affects unit costs and total output
- b. Affects aggregate supply, employment (and unemployment) and prices
- c. Affects economic growth (and therefore welfare); affects competitiveness of businesses and therefore trade.

1. What can a business do about low productivity? What can the government do?

- a. Businesses can invest in capital and technology; they can look at the way work is managed and organised; they can look at individuals' motivation and training
- b. Government can encourage and support investment in technology, research and development, can use tax policy and subsidies

P152 Quick check

For each of the following statements, say whether it is true or false.

- a. The reservation wage is the minimum someone is prepared to work for. TRUE
- b. A change in the wage rate will shift the supply of labour. FALSE
- c. Net migration is likely to shift the supply of labour outwards. TRUE
- d. An increase in the retirement age will increase the supply of labour. TRUE

P152 Question

What is the likely impact on fruit and salad growers if there is a shortage in the supply of labour in their industry?

- May increase wages and therefore increase costs. This will shift supply inwards and lead to equilibrium with higher prices and lower output

P153 Questions

1. What is happening to the unemployment rate in the UK over the given period?
2. What might the impact of this be for businesses, do you think?
3. How might unemployment rates affect wages and the ease of recruiting?

P155 Quick check

For each of the following statements, say whether it is true or false.

- a. If the wage rate is above the equilibrium rate there will be excess supply. TRUE
- b. If the wage rate is below the equilibrium rate there will be excess supply. FALSE
- c. An increase in demand for labour is likely to increase wages. TRUE
- d. A decrease in supply for labour is likely to increase wages. TRUE

P156 Doing the business maths

In terms of shifts in supply of and demand for labour, what might cause?

- a. An increase in the equilibrium wage and quantity of labour? INCREASE IN DEMAND FOR LABOUR
- b. An increase in the equilibrium wage and a decrease in the quantity of labour? DECREASE IN SUPPLY OF LABOUR
- c. A decrease in the equilibrium wage and quantity of labour? FALL IN DEMAND FOR LABOUR
- d. A decrease in the equilibrium wage and an increase in the quantity of labour? AN INCREASE IN SUPPLY OF LABOUR

P158 Questions

1. Why does the size of the UK population matter to businesses?
 - Affects demand for products and supply of labour.
2. Why does net migration into the UK matter to businesses?
 - Affects labour supply and demand within a country
3. Why does the age distribution of the UK population matter to businesses?
 - Affects size of working population; affects demand for different products (e.g. computer games v blood pressure medication)

P160 Question

Do you think the gig economy is a good thing?

May depend on whom you ask: to some employees it gives flexibility; to others it may feel as employers are using their power to exploit employees; for employers gig economy means they have less commitment to employees than they would if staff were permanent full time employees.

P160 Questions

1. What proportion of Marks & Spencer's operating costs are store staff costs?
2. What would managers of Marks and Spencer's want to analyse in order to decide if this is too high a figure or not?

P161

Number of employees	Wage bill if each paid £600	Output (units)	Labour productivity	Labour cost per unit
50	£30000	50000	$50000/50=1000$	$30000/50000=£0.66$
50	£30000	60000	$60000/50=1200$	$30000/60000=£0.5$
50	£30000	100000	$100000/50=2000$	$30000/100000=£0.3$
50	£30000	200000	$200000/50=4000$	$30000/200000=£0.15$

P164 Questions

- 1. Outline the benefits to managers of working with trade unions in their organization.**
- 2. Outline the potential disadvantages.**
- 3. How might trade unions affect the conditions in a labour market?**

P165 Questions

1. What do you think determines the pay of pilots?
Supply – this will depend on the costs of training, availability of training courses, length of training
Demand- this will depend on demand for flights
2. Why did Ryanair offer pilots better pay and conditions?
Because it needed to attract and retain pilots
3. What might be the impact on Ryanair of a continuous shortage of pilots?
May affect flights and therefore reputation and revenue

P166 Questions

- 1. Why might you expect wage costs and the performance of a football club to be positively correlated?**
Higher earnings to the better players leading to higher position in the league or in competitions
- 2. What factors do you think might have contributed to the performance of clubs apart from wage costs?**
Training, management, support from the crowds, own youth squad, quality of competition

P169 Question

What are the consequences for businesses of paying women less than men?

May be illegal if it is paying different pay for the same job; may be prosecuted; may lose or not attract best quality candidates; smaller labour pool to select from

P169 Question

Do you think businesses should be made to provide more information on remuneration?

May be fairer and more transparent; may create conflicts at least in short run if significant differences revealed; depends how applied - may give advantage to businesses that do not have to reveal pay but can see what competitors do pay

P172 Question

Do you think Ben and Jerry's approach to 'economic justice' is a good one?

- May depend on your perspective and your objectives, May be perceived as fairer.
- May not necessarily be efficient

P172 Quick check

For each of the following statements, say whether it is true or false.

- If men get paid more than women this means there must be discrimination.
FALSE
- Labour productivity will affect the demand for labour. TRUE
- A minimum wage above equilibrium will not affect the equilibrium. FALSE
- A minimum wage below equilibrium leads to excess demand for labour.
FALSE

P173 Business case extension questions

1. What factors do you think affect the demand for vice-chancellors?

How much they can add to the university; the value they can bring; the income they can help the university to generate

2. What factors do you think affect the supply of vice-chancellors?

Skills required; experience needed

3. How would you measure the productivity of a vice-chancellor?

May be difficult - may consider impact on reputation, impact on appeal in terms of attracting staff and students, quality of decision making; no easy "output" to measure

4. What would you link the pay of a vice-chancellor to?

Quality of strategic decisions; position of university in relation to targets set; support of staff;

5. Do you think vice-chancellors tend to belong to a trade union? Explain your answer.

May be part of a union for legal advice and support; however, pay negotiations may be individual dependent on particular person, specific role on university - may not want union negotiation

6. In what way do you think market forces determine the pay of vice-chancellors?

Influence the amount that vice chancellors may get paid at other institutions or in other roles. Demand for vice chancellors will affect what might be paid as will supply of suitably qualified and interested people

7. Do you think the government should set a maximum for the earnings of those in senior positions in universities? What do you think the effects of this would be?

If the government set a rate below the market rate this may mean that the universities cannot attract people of the right quality. However, may be a fairer system.

End of chapter questions

1. Why is demand for labour a derived demand?

Derived from demand for the product

2. What factors affect demand for labour?

- Productivity and demand for the product
- 3. What factors affect the supply of labour?**
Training and skills required, working population size, mobility of labour
 - 4. How can trade unions influence the labour market?**
Can influence wages paid
 - 5. What makes the demand for labour sensitive to wage changes?**
If demand from the product is sensitive to price; wages are a percentage of total costs
 - 6. What is the impact of a minimum wage if it is set above the equilibrium wage?**
Leads to excess supply
 - 7. Why do some people get paid more than others?**
Discrimination; different labour market conditions; immobility of labour
 - 8. Why does labour productivity matter?**
Affects unit costs and output
 - 9. What is meant by the gig economy?**
The gig economy refers to labour markets that have a high level of short-term contracts or freelance work, as opposed to permanent jobs.
 - 10. What is meant by net migration?**
Immigration exceeds emigrations over a given period