Section 1: What Determines Wages?

Supply and Demand in the Labor Market
- Supply and demand can be used to analyze how we determine the ___________ of a resource (factor of production), such as ______________.
- In this market, the people who “____________” labor are employers and the people who “____________” labor are employees.
- The price of labor is called the _______________
  - The demand curve for labor slopes ________________. Employers will be willing and able to hire __________ people at __________ wage rates than at higher wage rates.
  - In contrast, the supply curve for labor slopes _______________. More people will be willing and able to work at __________ wage rates than at __________ wage rates.

How the Equilibrium Wage Rate Is Established
- The equilibrium wage rate is the wage at which the quantity demanded of labor _______________ the quantity supplied of labor.
- When the quantity supplied of labor is greater than the quantity demanded, there is a _______________ of labor and wage rates ____________.
  - Quantity supplied of labor > Quantity demanded of labor = a surplus of labor
  - A surplus of labor = wage rates fall
- When the quantity demanded of labor is greater than the quantity supplied, there is a _______________ of labor and wage rates ____________.
  - Quantity demanded of labor > Quantity supplied of labor = a surplus of labor
  - A shortage of labor = wage rates rise

Why Do Some People Earn More than Others?
- Wage rate = how much a person earns on an ______________ basis
- Wage rates may differ because…
  - The ______________ of different types of labor is not the same.
  - The ______________ for different types of labor is not the same.
- Average hourly earning of workers in different industries…
  - Construction = $________
  - Manufacturing = $________
  - Financial activities = $________
  - Leisure and hospitality = $________
  - Business and professional services = $________
Are Money Benefits the Only Thing That Matters?
- A higher income is ________ the only thing that matters to people.
- Other influences include ____________________________ between home and work, ___________ worked per week, and ___________ time.

  **Benefits in a job = Monetary benefits (income) + Nonmoney benefits**
- Each of us needs to make a _________________ as to what is important to us when choosing a job

The Demand for a Good and Wage Rates
- If demand for a ___________________ decreases, then demand for ___________________ to produce that product will also decrease.
- _________________demand is demand that is the result of some other demand.

What Will You Earn?
- Wage rates for different ______________________ vary.
- Your wage rate (and salary) will depend on a number of things. One is the ______________ for your labor services.
- Two factors will make the demand for your labor services high:
  - The demand for the __________ you produce.
  - Your ______________. Your productivity can be influenced by many factors, such as natural ability, effort, quality and length of education and training.
- Demand is not the only factor influencing your potential earnings. The __________ of qualified people also helps determine wages. High wages are the result of ______________ combined with ________________.

Government and the Minimum Wage
- The ______________ is a _____________________ law that specifies the ______________ hourly wage rate that can be paid to workers. This law was originally passed during the _______________. At that time, it established a minimum wage of 25 cents an hour. As of 2009, the minimum wage is $7.25 an hour.
- Individual ______________ can set their minimum wage higher than the federal rate.
- The minimum wage rate may be higher or lower than the ______________ wage rate for a particular area or occupation.
- When Congress changes the minimum wage, it may have the ______________ effect of increasing _______________ because employers will be willing and able to hire fewer workers.

Two Types of Wages: Money and Real
- Measuring a person’s wage rate in terms of ______________ gives us the person’s money wage, or ______________. We usually refer to this rate as a dollar amount per hour, such as $9 per hour.
- Measuring a person’s wage rate in terms of what it ______________ gives us the person’s ______________ wages.
- A person’s money wage can rise while his or her real wage falls. This happens when the price of goods and services ______________ more than wages.
- Real wage is more ______________ than money wage because it measures what we can do with the money wage we receive.
- The government measures the “average price” of the variety of goods that people usually buy. This average price is called a _________________.
- One well-known index is the ____________________________ (CPI). The CPI is computed ________________.
You can find your real wage for a given year by _____________________ your money wage by the CPI.

- Suppose you made $7 per hour last year, and the CPI was 120. Your real wage last year was 5.8 percent of one unit of a composite good.
- Now suppose you have received a promotion and you are making $9 per hour this year. But the CPI has also risen; this year it is 170. Your real wage this year is 5.3 percent of one unit of a composite good.
- Even though your wages increased from $7 to $9 per hour, your real wage decreased from 5.8 percent to 5.3 percent.

Applying the Principles
Economics - Chapter 9, Section 1
What Determines Wages?

Wages In An Unskilled Labor Market
The following table shows the number of workers demanded and supplied at various wages in the unskilled labor market in H - Town. Use this table to respond to question 1.

<table>
<thead>
<tr>
<th>Hourly Wage</th>
<th>Number of Workers Demanded</th>
<th>Number of Workers Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2</td>
<td>14,000</td>
<td>2,000</td>
</tr>
<tr>
<td>$3</td>
<td>12,000</td>
<td>4,000</td>
</tr>
<tr>
<td>$4</td>
<td>10,000</td>
<td>6,000</td>
</tr>
<tr>
<td>$5</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>$6</td>
<td>6,000</td>
<td>10,000</td>
</tr>
<tr>
<td>$7</td>
<td>4,000</td>
<td>12,000</td>
</tr>
<tr>
<td>$8</td>
<td>2,000</td>
<td>14,000</td>
</tr>
</tbody>
</table>

1. Use the information in the table to draw the supply and demand curves for this labor market on the grid above. Use the wage rates (prices) and number of workers (quantities) demanded to plot the demand curve. Label it D1. Use the wage rates and number of workers supplied to plot the supply curve. Label it S1.

Use the graph you created in question 1 to answer questions 2 and 3.

2. The equilibrium wage for unskilled labor in H - Town is ________________

3. The equilibrium quantity for unskilled labor in H - Town is ________________ workers.

Minimum Wage
Many community leaders make passionate speeches before the city council on behalf of the low-wage workers in H-Town. The community leaders maintain that the way to help low-wage workers is to raise the minimum wage. Due to the hard work and persuasive speeches, the city council of H-Town passes a law that sets the minimum wage at $7 an hour. Low-wage workers celebrate at the prospect of earning $7 an hour.

Use the above information to respond to question 4.

4. Illustrate the minimum wage by drawing a horizontal line at $7 on the graph you created in question 1.
Questions 5-10 are based on the new graph, which now shows a minimum wage of $7 an hour. Write your answers in the blanks provided.

5. The quantity demanded at the minimum wage is ___________________ workers.

6. The quantity supplied at the minimum wage is ________________________ workers.

7. The government of H-Town intended to help low-wage workers by setting the minimum wage at $7 an hour but, instead, has created a _________________________ of ____________________ workers.

8. Because these people are looking for work but cannot find it, they are considered ________________________.

9. Setting the minimum wage at $7 an hour had the _________________________________ of creating an unemployment problem in H-Town.

10. Now, suppose that many of the citizens of H-Town want to get rid of the minimum wage of $7 an hour to try to reduce unemployment. In opposition, persuasive speakers paint a picture of workers earning only $2 an hour in the absence of government regulation. Explain why this scenario is highly unlikely.
___________________________________________________________________________________________
___________________________________________________________________________________________
___________________________________________________________________________________________

Write your answers to questions 11 and 12 in the blanks provided.

11. Who are the winners and who are the losers when the minimum wage is increased?
___________________________________________________________________________________________
___________________________________________________________________________________________

12. Do you support an increase in the minimum wage? Why or why not?
___________________________________________________________________________________________
___________________________________________________________________________________________

Why Different Wages?
Questions 13-16 relate to the wages earned by different people. Write your answers in the blanks provided.

13. What are two of the reasons why some people earn more than others?
___________________________________________________________________________________________
___________________________________________________________________________________________
___________________________________________________________________________________________

14. Both doctors and sanitation workers may have a significant effect on people's health. Explain why doctors earn more than sanitation workers earn.
___________________________________________________________________________________________
___________________________________________________________________________________________
___________________________________________________________________________________________

15. Sally has just earned a degree in economics. She has two job offers, one from a university for $70,000 a year and one from a Wall Street investment bank for $150,000 a year. Assume Sally chooses the university job. Complete the formula that applies to this situation.

   Benefits in a job = ______________________________________________________________

16. How much are the nonmoney benefits of the university job worth to Sally?
_________________________________________________________________________________________
Real Wages

Real wages measure wages in terms of what the wage can buy. The formula Real wage = Money wage/CPI provides a way to compare the wages earned in different years. Questions 17-19 relate to comparing real wages.

17. Your great-grandfather, grandfather, and father are arguing about wages over dinner on Thanksgiving Day. Each claims to have had a tougher time supporting his family. Your great-grandfather earned $4,000 a year in 1940 when the CPI was 13.9; your grandfather earned $12,000 a year in 1970 when the CPI was 37.8; and your father earned $50,000 a year in 2004 when the CPI was 185.2. Rank your patriarchal line from highest to lowest according to real wages. Include the real wage value for each rounded to the nearest whole number.

Highest real wage: _____________________________________________________

Second highest real wage: _____________________________________________

Lowest real wage: _________________________________________________

18. Your Aunt Judy complains that although she continues to earn more money each year, she doesn't seem to have as much buying power as she used to have. Use the real wage formula to fill in the missing numbers in the following table. Round your answers to the nearest whole number.

<table>
<thead>
<tr>
<th>Year</th>
<th>Aunt Judy's Money Wage</th>
<th>CPI</th>
<th>Aunt Judy's Real Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$25,000</td>
<td>105.5</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>$30,000</td>
<td>127.4</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>$35,000</td>
<td>150.3</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>$39,000</td>
<td>168.8</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>$43,000</td>
<td>190.7</td>
<td></td>
</tr>
</tbody>
</table>

19. Is your Aunt Judy correct? Has her buying power been decreasing over time? ______________
Economics - Chapter 9

LABOR, EMPLOYMENT AND WAGES

Section 2: Labor and Government Regulation

Some Practices of Labor Unions

- A _________________ is an organization that seeks to increase its members’ ___________ and improve its members’ _________________.
- To obtain higher pay for its members, a labor union can try to increase _______________ for its labor, decrease _______________ for its labor, or both.
  - A labor union might use _______________ to try to increase demand for the work that its members perform.
  - A labor union might try to decrease the labor supply because the fewer people _______________ to perform a job, the more those people can demand in wages.
- In the past, unions supported _________________. These were organizations that hired only union members.
- Today, closed shops are _______________. The Taft-Hartley Act of 1947 made closed shops illegal.
- The Taft-Hartley Act also gave states the right to pass _______________ laws. These state laws prohibit employers from _______________ employees to join a union as a condition of employment. _______________ states have passed right-to-work laws.
  - ______ California is not a right-to-work state
- The _________________ is legal in many states. A union shop is an organization that requires employees to join the union within a certain period after being hired. Approximately _______________ percent of all workers are members of unions.
- Labor unions work by gaining _______________ over the supply of labor. Union members can pressure an employer to meet its demand by calling a _______________. When members call a strike, they agree to stop working until the employer _______________ to do whatever the union has demanded. Typical union demands ask for increased _______________, increased _______________, or decreased _________________.

Unions’ Effects on Union and Nonunion Wages

- Unions can have an interesting effect on both union and nonunion wages. If a union is able to command higher wages, the employer will seek to _______________ its number of employees. Employees who are fired will join the _______________ labor market, thereby creating a greater supply of labor. This will cause the wages of nonunion employees to dip, creating an even larger _______________ between union and nonunion wages.

Two Views of Labor Unions

- The traditional view is that labor unions are an _______________ to establishing reasonable work standards. Thus, companies that employ union labor are less _______________.
- A newer view states that the labor union is a valuable _______________ voice for its members. Some evidence shows that union firms have a higher rate of _______________. Productivity may increase because union members have a voice and feel more _______________ in their work.

A Brief History of the Labor Movement

- The Knights of Labor had approximately _______________ members by 1886. This group welcomed _______________ who worked for a living.
- The American Federation of Labor (AFL) grew to ____ million _______________ labor members in 1930.
- In the early days, unions were considered _______________ conspiracies, and union leaders were regularly prosecuted and sued. In _______________, the Supreme Court of Massachusetts ruled that unions were not illegal, but that certain _______________ were.
- In the early 1900s, court orders called _______________ were used against labor unions to prevent strikes.
- The passage of the ____________________ Act in 1932 limited the use of injunctions. It declared that workers should be “free from the interference, restraint, or coercion of employers” in choosing their union representatives.
In 1938, John L. Lewis of the United Mine Workers left the AFL and formed the (CIO). The CIO successfully unionized the steel, rubber, textile, meatpacking, and automobile industries.

In 1955, the AFL and CIO .

The Landrum-Griffin Act was passed in 1959 with the intent of the internal affairs of labor unions.

Employee unions grew in popularity in the 1960s and 1970s. These unions comprised employees of local, state, and federal governments, such as police officers and firefighters.

**Government Regulation**

- The Occupational Safety and Health Administration (OSHA) protects workers against occupational and .
- The Environmental Protection Agency (EPA) regulates the amount of businesses can emit into the air or rivers.
- There are both benefits and costs to any government regulation. may include cleaner air and streams. may include money spent installing pollution control equipment.

Applying the Principles

**Economics - Chapter 9, Section 2**

**Labor and Government Regulation**

One of the objectives of a labor union may be to obtain higher wages for its members. Wages are largely determined by supply and demand in the labor market.

Write your answers to questions 20 and 21 in the blanks provided.

20. How do unions try to influence the demand for labor to achieve higher wages?

21. How do unions try to influence the supply of labor to achieve higher wages?

Each of the graphs in questions 22 and 23 shows the supply of and demand for union workers in a particular labor market. Then the event described occurs. Illustrate the shift in the supply curve or the demand curve as a result of the event. Then fill in the blanks in the statements below the graph with the correct answers. (Note: The level of employment refers to the number of union workers employed.)

22. Event: The union increases demand for the good produced.

The curve shifts to the , the wage for union workers , and the level of employment .
23. **Event:** The union decreases the supply of union workers.
   The _________________ curve shifts to the _______________, the wage for union workers ________________, and the level of employment ________________.