Unit 7 Overview

In this section of the course, students also apply the concepts of supply and demand to markets for factors such as labor, capital, and land. Students analyze the concept of derived demand, understand how a factor’s marginal product and the marginal revenue product affect the demand for the factor, and consider the role of factor prices in the allocation of scarce resources. When the markets for different factors are considered separately, most attention should be given to the labor market, particularly labor supply and wage and employment determination. Although the course may emphasize perfectly competitive labor markets, the effect of deviations from perfect competition, such as minimum wages, unions, monopsonies, and product market monopolies, can also be considered. The principles studied in the analysis of the labor market should be applied to the markets for land and capital to explain the determination of economic rent and the price of capital. By studying the determination of factor prices, students gain an understanding of how the market determines the distribution of income and the sources of income inequality in a market economy.

Terms:

Derived Demand

Marginal Product of Labor

Diminishing Marginal Product

Value of the Marginal product of Labor OR Marginal Revenue Product

Marginal Resource Cost OR Marginal Factor Cost

Labor

Capital

Perfectly Competitive Labor Market

Monopsony

Demand-Enhancement Union Model

Exclusive or Craft or Trade Union Model

Inclusive or Industrial Union Model

Bilateral Monopoly

Piece Rates

Commission

Royalties

Profit Sharing

Efficiency Wages

Principal-Agent Problem

Minimum Wage Controversy

Least Cost Combination VS Profit Max Combination