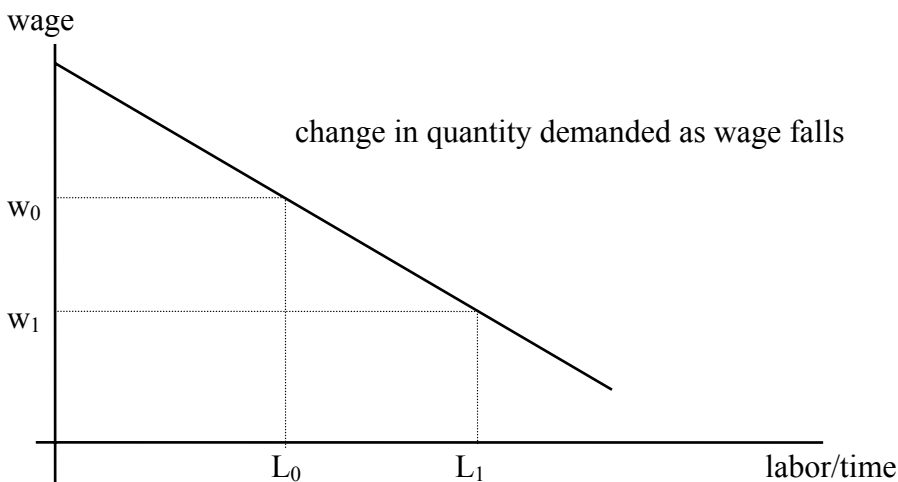


I. Demand and Supply at the Market Level

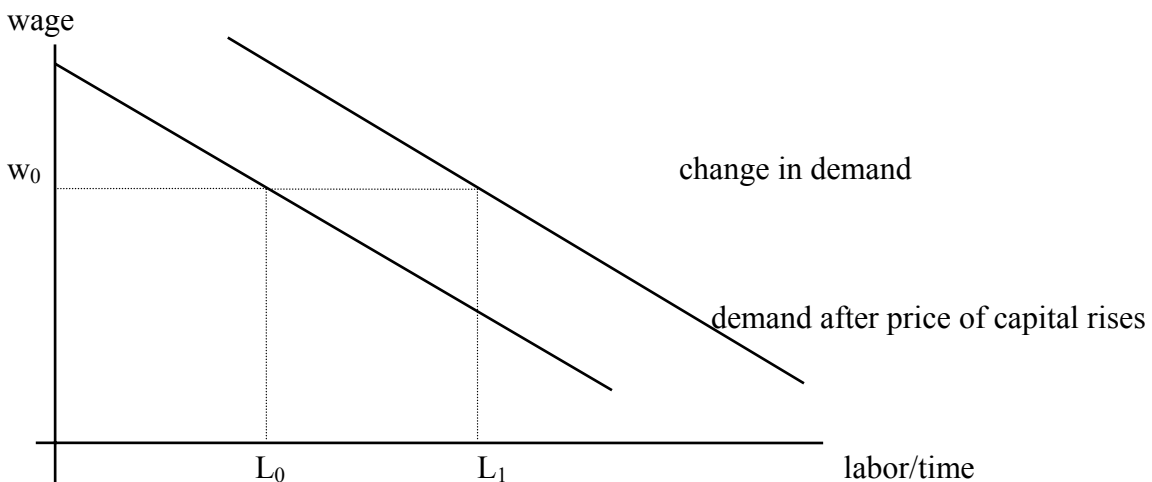
A. Demand curves: the most buyers are willing to pay for a given quantity of the good, per unit of time. The demand curve represents peoples' valuation of the good, as the quantity changes.

change in quantity demanded=movement along the curve (the quantity demanded of labor depends on the wage rate: as the wage falls, the quantity demanded increases)

change in demand=movement of the curve itself (the demand for labor depends on the price of capital: as the price of capital goes up, so does the demand for labor if labor and capital are sufficiently substitutable)



[[Are workers better off before or after the fall in their wage?? --those who had jobs, have less income now, but more workers have jobs. What about firms who demand workers, are they better off or not? "Consumer surplus" to business in both cases]]]]

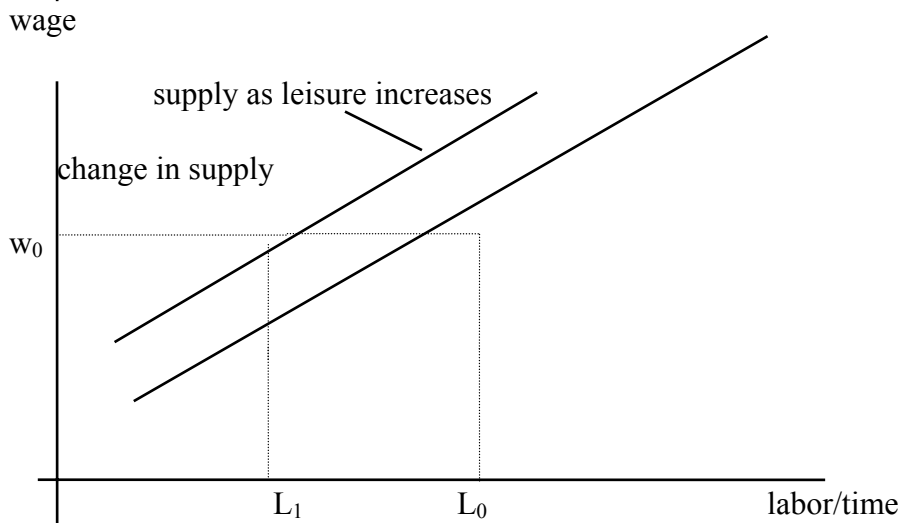
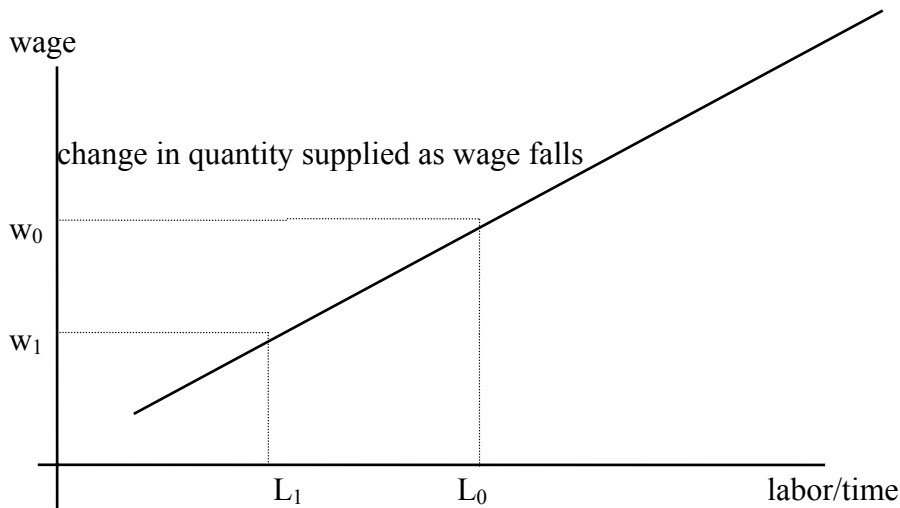


[[[What has happened to consumer surplus? What about the welfare of workers? number of workers up, wages unchanged. Does this mean everyone is better off? No, the price of capital rose, product prices rose, so it is not clear]]]]

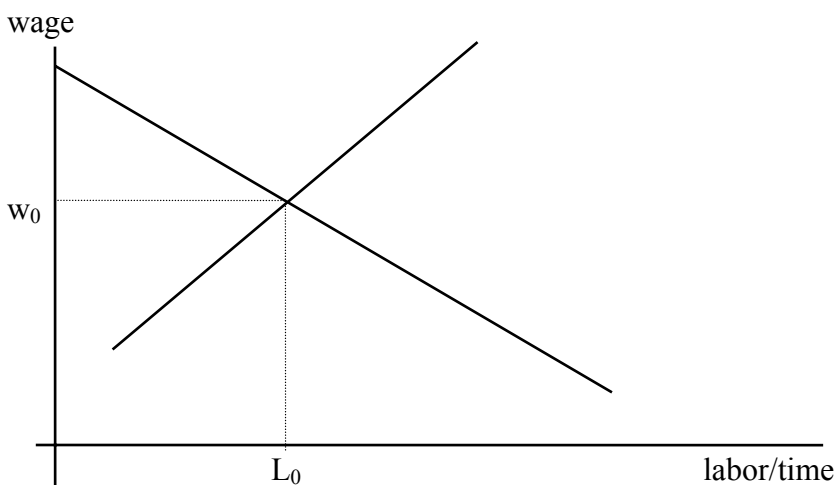
B. Supply curves: the least that sellers are willing to accept for a given quantity of the good, per unit of time . The supply curve represents the “cost” of bringing labor to the market, as the quantity changes.

change in quantity supplied=movement along the supply curve (the quantity supplied of labor depends on the wage rate: as the wage falls, the quantity supplied decreases)

change in supply=movement of the curve itself (the supply of labor depends on the opportunity cost of working: as the price of leisure consumption falls, the supply of labor will fall if leisure is a normal good)



C. Example One of Equilibrium: The Impact of Immigrants on the Wages of Natives
 What will happen as the number of immigrants increase?



Empirical evidence on this:

$$\text{native wage} = \beta_0 + \beta_1 (\text{portion of foreign born}) + \text{stuff}$$

D. Another example: the impact of the minimum wage on employment

What would happen if there were another, very large uncovered sector, and mobility between the two sectors? It depends upon the relative opportunities in the two sectors:

$$\text{covered sector: } E(e) = p * w_c + (1-p) * 0$$

uncovered sector w_0 .

and the elasticity of the demand for labor in the covered sector.

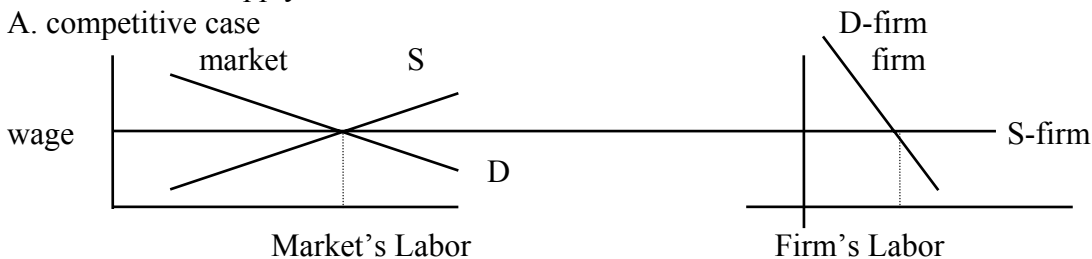
E. Another application of Market Equilibrium: Payroll taxes

The general case, taxing either the firm or the workers, and the difference between who bears the burden of the tax and who pays the tax. [[the results, and the lost consumer and producer surplus=deadweight loss of the taxes]]

The special case of an inelastic supply of labor curve [[[ask: What is the deadweight loss in this case? there is none... Why?]]]]

II. Demand and supply at the firm level

A. competitive case



B. single payer case: monopsonist—see the text