

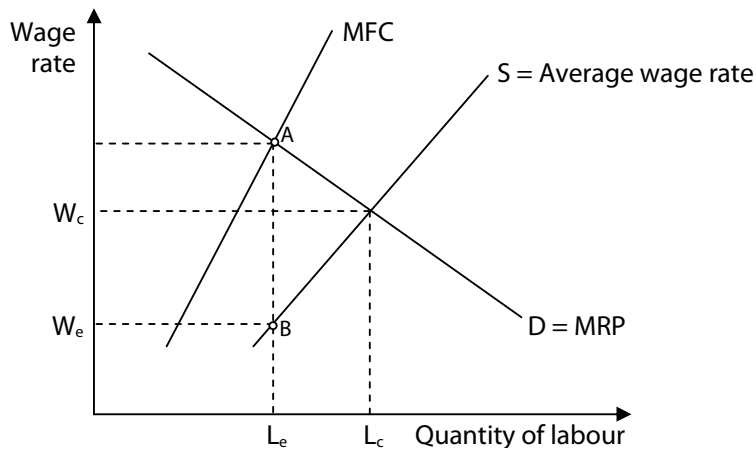
Labour market failures

1. Immobility of labour

The immobility of labour is a failure that creates an excess supply of labour in some markets and a lack of supply in other areas. Occupational immobility is caused by the requirement of specialist skills for some occupations and geographical immobility due to social ties, the cost of living and lack of information.

2. Monopsony

Where a single firm is the only employer of a particular type of labour (>90% in reality). The monopsonist is a wage-setter, paying workers lower than they want and employing fewer of them than the equilibrium level.



The equilibrium level of employment is at point A, where $MRP = MFC$. The MFC is the marginal factor cost, the additional cost of employing one extra worker. The distance AB represents the workers exploitation. Under perfect competition, a wage rate of W_c is paid to L_c workers. The monopsonist, in the absence of a trade union pays lower wages and employs fewer workers.

3. Trade unions

Trade unions aim to regulate the supply of labour aiming to increase wage rates, primarily by limiting supply to the market and creating a deficit. Under any market structure – other than a monopsony – trade unions can push only for *either* a pay rise *or* an increase in the size of the workforce.

These notes are from a lesson on 5th January 2005.