Equilibrium Wages

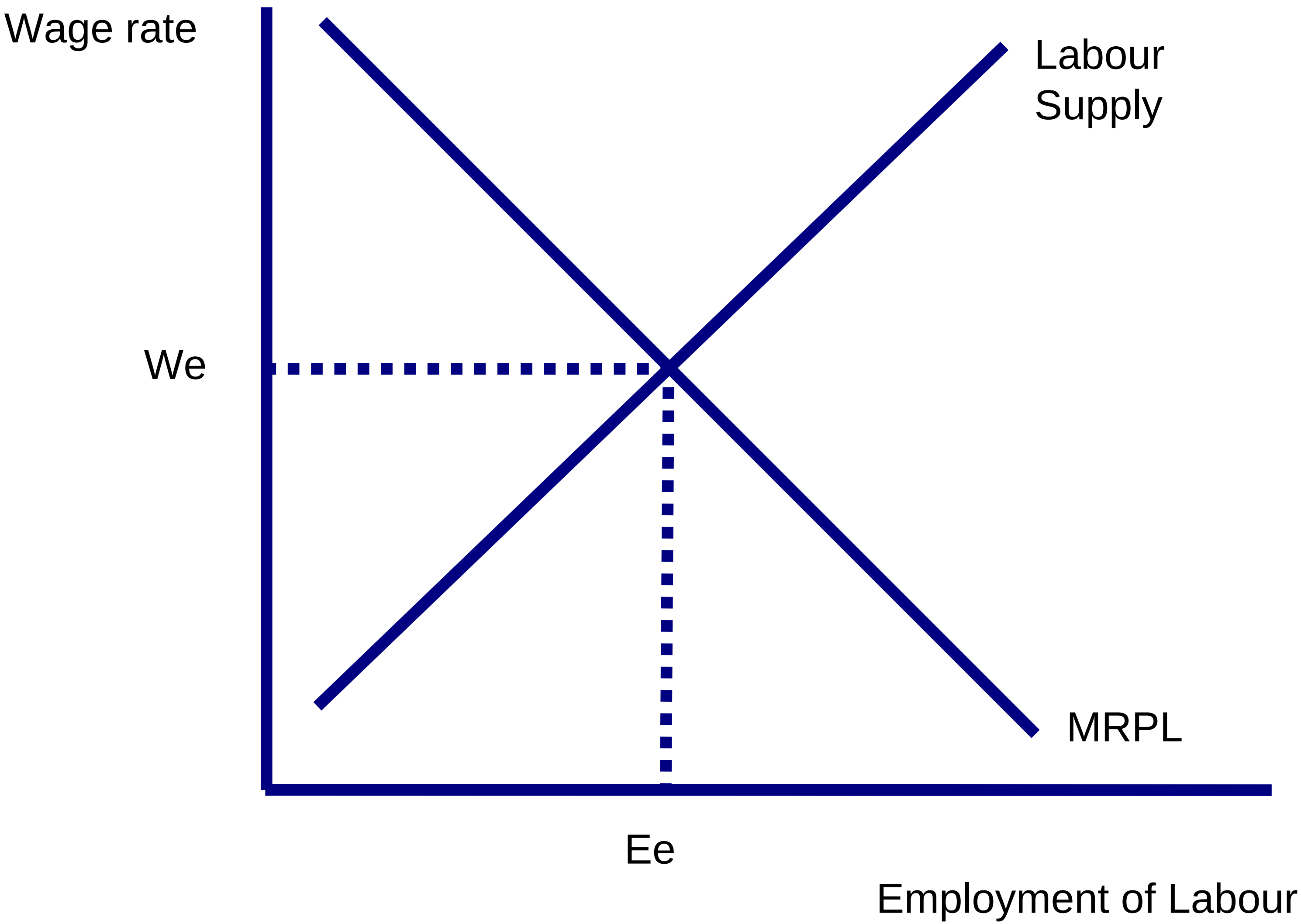
A2 Economics Presentation

2005

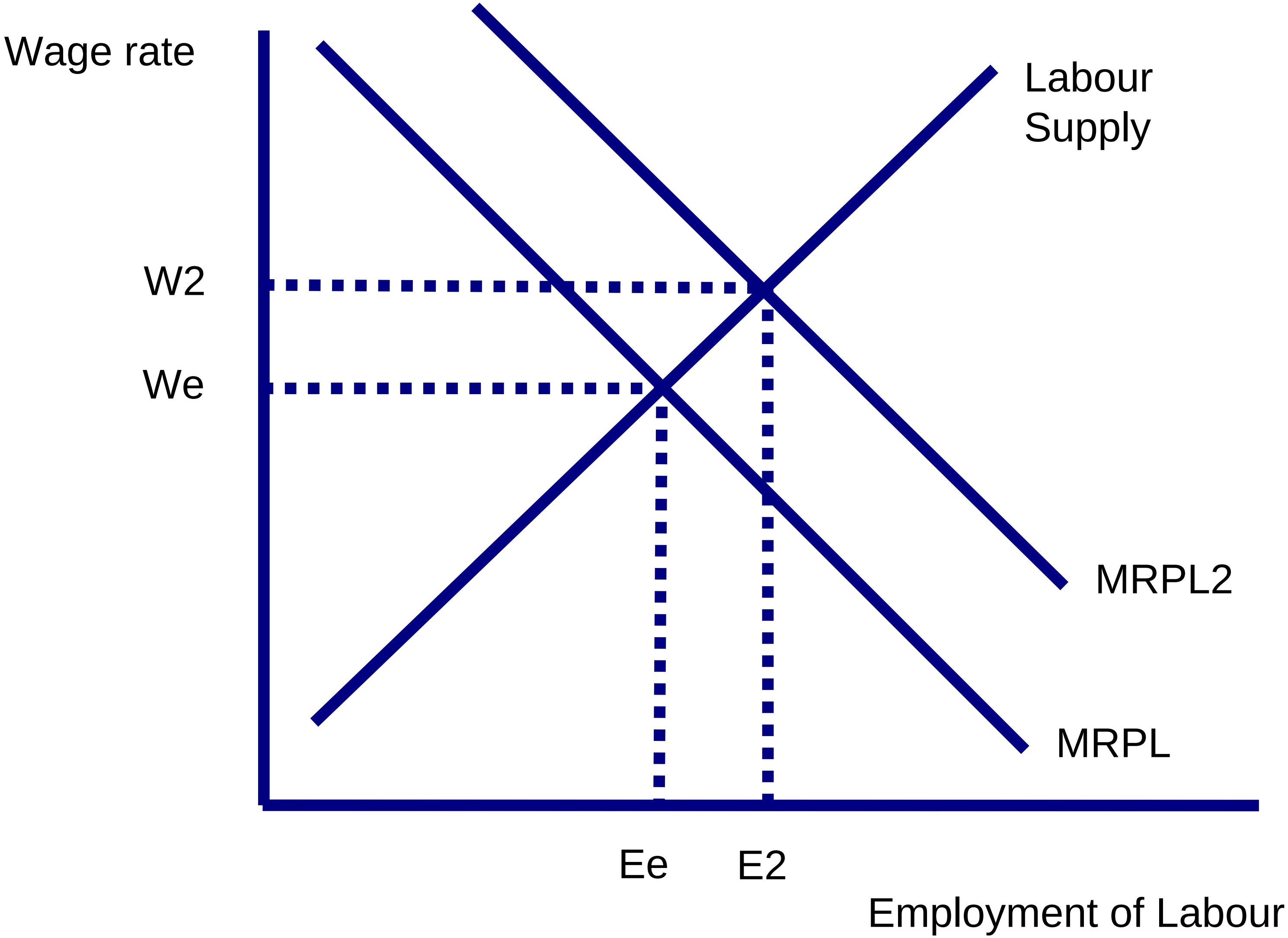
Equilibrium Wages

- The interaction of labour demand and labour supply determines the market equilibrium wage
- A change in labour demand and/or supply will alter the equilibrium and change wages and employment
- When labour demand increases there will be a rise in both wages and employment
- A rise in labour supply causes downward pressure on wages although employment increases
- When the wage rate is not at the market clearing level, a situation of dis-equilibrium exists
- If wages lie above the equilibrium there is an excess supply of labour. Excess demand will occur when wages are below the equilibrium

The market clearing wage rate



Rising labour demand



Rising labour demand