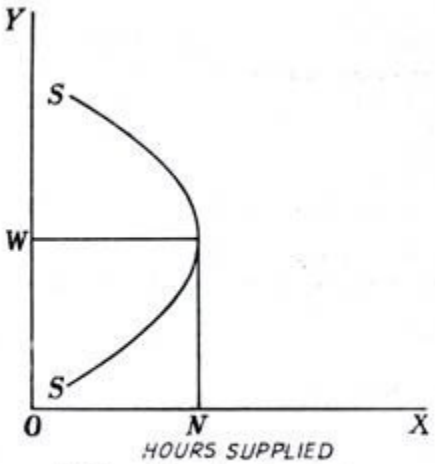
B.A. Part III (Economics Honours)
Ravi Shanker Singh
Assistant Professor (Economics)
Vaishali Mahila College, Hajipur

Backward Sloping Supply Curve of Labour

While labour's supply curve sloping upwards from left to right is the general rule, an exceptional case of labour's supply curve may also be indicated (see Fig. 31.1) When the workers' standard of living is low, they may be able to satisfy their wants with a small income and when they have made that much, they may prefer leisure to work. That is why it happens that, sometimes, increase in wages leads to a contraction of the supply of labour. This is represented by a backward-sloping supply curve as under.

For some time this particular individual is prepared to work long hours as the wage goes up (wage is represented on OY—axis in Fig.1). But beyond OW wage, he will reduce rather than increase his working hours.



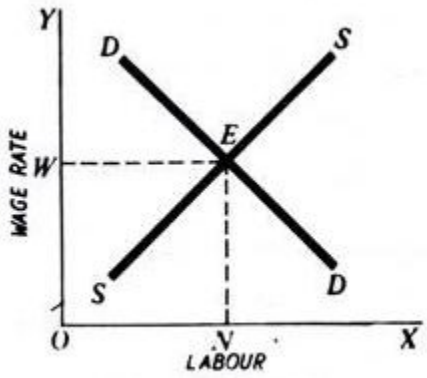
Backward Bending Supply Curve of Labour

Fig.1

However, this backward sloping Curve may sometimes be true of certain workers, the supply curve of labour to industry as a whole will normally slope upwards from left to right (as shows in Fig. 1)

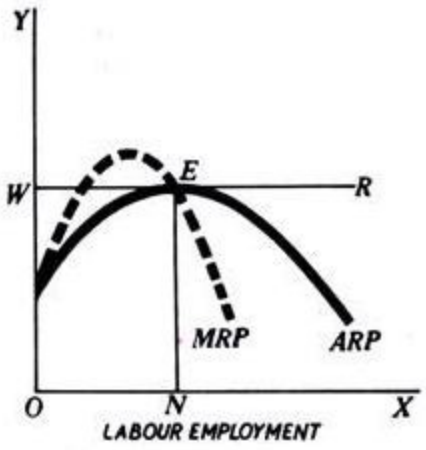
Interaction of Demand and Supply:

We have now analysed the demand side as well as the supply side of labour. We shall now see how their interaction determines the wage level. This is shown in Fig. 2



Determination of Wages

Fig.2



Long-run Equilibrium Wage-rate

In this diagram, we have shown the wage determination of a particular type of labour for an industry. The curve SS represents supply of labour to the industry. DD is the demand curve for labour of that industry. Demand and supply curves intersect at E. Therefore, the wage rate OW (= NE) will be established. The equilibrium wage rate will change if the demand and/or supply conditions change.

Under competitive conditions, wage rate in the long run will be equal to both the marginal revenue product and the average revenue product. If the wage rate is less than the average revenue product, the firms would be earning supernormal profits. As a result, new firms will enter the industry and the demand for labour will increase which will push up the wage rate so as to be equal to average revenue product.

On the other hand, if the wage rate is above the average revenue product, the firms will be suffering losses. As a result, some firms will leave the industry and demand for labour will decrease which will force the wage-rate down. Fig. 2 shows the long-run equilibrium of the firms under perfect competition. This diagram shows that long-run equilibrium wage rate is OW. At wage rate OW, the

firm is employing ON number of labour. This OW rate is equal to marginal revenue product (MRP) and average revenue product (ARP) at point E. The point E is the equilibrium position of the firm in the long run.

We have so far concerned ourselves with the problem of how wages in general are determined. But is there any general rate of wages?

If labour had been like any other commodity, it would also have been sold in the market at the same rate. But as you know, labour is peculiar in certain respects. Labourers differ in efficiency. They are less mobile than goods. Their supply cannot be increased to order and it is a most painful process to reduce I hem. If a day is lost, its labour is lost with it. For these and other reasons, a uniform rate of earnings for workers is not possible. There is thus no prevailing rate of wages similar to the prevailing rate of interest or prevailing price of a good.

All over the world, labour is spat up into a very large number of groups and sub-groups, each with a different level of wages. Even within the same group, the differences are ever so many. Consequently there cannot possibly be a general rate of wages. All that can be done is to and out an average rate which can be discovered by dividing the total amount paid to a given group of workers by the total number of workers in it. The fact is that the wages differ from occupation to occupation. Wages are relative.