

ECONOMICS IN THE REAL WORLD

Teaching resources

A-Level



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Lesson Plan: Understanding the Demand and Supply of Labour

Objective: Students will be able to understand the idea of marginal revenue product (MRP) and how it determines the demand for labour. They will learn how the labour market equilibrium is established, and the factors that influence the demand and supply of labour.

Begin by asking students if they know how businesses determine the amount of employees they hire and the wage they give them. Assess the level of initial knowledge the class has based on the suggestions given.

After this initial question, recap what students already know about the interaction between demand and supply and explain to them that the same concepts apply when understanding the labour market.

Explain that the demand for labour comes from businesses based on their need to produce goods and services. Explain that the supply of labour can be referred to as the wage. Explain that the demand for labour can be determined by the marginal revenue product (MRP) which is the additional revenue created by hiring one extra worker.

Give students the formula to calculate MRP. This is **$MPP \times MR$** .

Activity: Display this table on the class projector

Number of waitresses	Marginal revenue product	Wage Rate
1	120	60
2	160	60
3	200	60
4	160	60
5	60	60
6	20	60

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Ask students how many waitresses they think the owner of the restaurant should hire. If students are struggling, give them hints, such as the owner's main aim is to make profit so they don't want to lose money.

In conclusion, it is worth a firm employing an extra worker as long as the cost of employing the extra worker is less than the extra revenue that worker will bring.

And so the firm will hire up until $MRP = W$.

Draw a graph that shows the demand (MRP) and supply (W) of labour, and explain that as is the case with supply and demand, many factors can lead to a shift. Ask students to discuss in pairs what they think these factors could be. After 5 minutes of discussion, ask students to contribute ideas. As students bring up ideas, they begin to form a list on the whiteboard. With each suggestion ensure that the class goes through how it would cause a shift and the impact this would have on wage and amount of employees.

Such contributions could include:

Demand

- Change in demand for goods and services
- Price of other factors of production

Supply

- Income tax levels
- Training periods
- Population

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Activity (30 mins):

Divide the class into 5 different groups. These could include union representatives (students' main role is to protect worker rights), consumers (those trading goods and services in the economy), business owners, job seekers and economists.

Each group should sit together. You should go through a variety of policies, each of which will cause a change in the labour market equilibrium. These can include but should not be limited to:

- The introduction of universal basic income
- A relaxation in right to work laws (which allow immigrants to work)
- A tax credit introduced for businesses that hire new workers
- Government spending decrease on infrastructure projects
- Introduction of free job training programs are offered to unemployed workers
- An increase in the requirement age

During each scenario, each group should argue for and against the policy, concluding if it will have a positive or negative impact on them. Allow the groups to debate with each other and allow rebuttals to arguments presented by other groups. When debating, encourage students to assess the policies using the shift of the supply and demand curves and how this impacts where the equilibrium is. This will allow students to assess policies using their knowledge of the supply and demand of labour and will prepare them for assessing case studies in their exam.