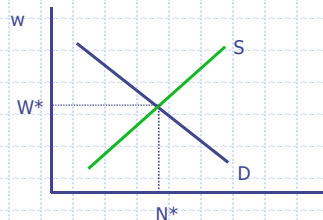


Introduction to Econ 471

Professor H.J. Schuetze
Economics 471

Implications of the Neoclassical Model

- ◆ As we have noted, the long-run equilibrium is characterized by the familiar supply and demand analysis



- ◆ Market forces move the market towards the equilibrium wage and quantity of labour exchanged

What are the implications of this model?

1. Wages are equalized across homogeneous workers and homogeneous firms
 - No incentive for firms to pay a higher wage as this will not affect productivity
 - This does not imply that wages won't vary across different workers or across different firms

Implications of the Neoclassical Model

2. There is no involuntary unemployment

- No individuals that would like to work at the going wage who are unable to find work
- Only individuals who would not work at the going wage (but would at higher wages) are unemployed

3. There are no queues to work for certain firms

- All firms are the same in terms of working conditions, job security, etc.
- No reason to worry about which firm you work for
- ◆ In many ways, the predictions of the competitive model of labour demand do not accord with observed labour market behaviour

Adjustments to Long-Run Equilibrium

- ◆ There are situations in which we still might expect to see differences in wages across firms and "markets" in this neoclassical setting
- ◆ The previous model is really a long-run analysis
 - Assumes firms can get all the labour they need at the going wage
- ◆ In the short-run the firm may still have to raise wages to attract workers
 - e.g. - workers have to move from other province
 - workers have to complete training

Departures from the Neoclassical Model

- ◆ Many of these inconsistencies can be explained when we allow for:
 - i) Imperfect Competition
 - ii) Imperfect Information
 - iii) Risk and Uncertainty
 - iv) A long-run relationship between firms and workers
- ◆ We looked at examples of i), ii) and iv) in Econ 370
- ◆ We will examine iii) this term, along with other examples of departures from perfect competition and several important factors that influence wage outcomes