

EC 131 - Lecture 18

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Textbook readings: Chapter 18

1 Market for Factors of Production

- Factors of production (FOP)
- Derived demand
- Assumptions about output and FOP markets: perfectly competitive (firm as price-taker in both markets)
- Value of the Marginal Product of Labor ($VMPL = P \times MPL$)
- Profit-maximizing input quantity: $VMPL = w$
- $VMPL$ as labor demand curve
- Shifts in labor demand
 - Output price
 - Technological change
 - Supply of other factors
- Labor supply
 - Wage as opportunity cost of leisure
 - Trade-off between labor and leisure and upward-sloping labor supply
- Shifts in labor supply curve
 - Changes in taste
 - Changes in alternative opportunities

- Immigration
- Market for other factors of production
 - Rental price instead of purchase price