

# EC 131 - Lecture 18

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November 2012

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