Labour Market & Financial Market

A goods market is where goods are exchanged while a services market is where services are exchanged. In a labour market, labour services are supplied by workers and labour services are demanded by firms. In a financial market, loanable funds are supplied by lenders and loanable funds are demanded by borrowers. All of the things learned about supply and demand for a goods or services market hold for a labour market or a financial market.

In case of a labour market, price refers to price of labour services, wages or salaries. Quantity in a labour market can refer to number of workers or number of work hours. Labour supply reflects the willingness of workers to supply labour services. Labour demand reflects the willingness of firms or producers to demand labour services.
Movements along a labour supply or a labour demand curve are movements within the same curve caused by changes in wage.

Shifts of a labour supply curve are shifting of the curve itself. They can be caused by a number of factors. Changes in the number of workers available, education level of the workforce, and government policies can result in shifts of a labour supply curve. Changes that make it less appealing for workers to provide labour services in an economy shift the labour supply curve upward or to the left. Changes that make it more appealing for workers to provide labour services in an economy shift the labour supply curve downward or to the right.

Shifts of a labour demand curve are shifting of the curve itself. They can be caused by a number of factors. Changes in the demand for output, education level of the workforce, technology and government policies can result in shifts of a labour demand curve. Changes that make it less appealing for firms or producers to hire workers or add work hours shift the labour demand curve downward or to the left. Changes that make it more appealing for firms or producers to hire workers or add work hours shift the labour demand curve upward or to the right.
In case of a financial market, price refers to the price of loanable funds, **interest rate**. Quantity in a financial market refers to the **amount of loanable funds**. Loanable funds supply reflects the willingness of lenders to lend loanable funds. Loanable funds demand reflects the willingness of borrowers to borrow loanable funds.

**Movements along** a loanable supply or a loanable demand curve are movements within the same curve caused by changes in interest rate.
**Shifts of** a loanable funds supply curve are shifting of the curve itself. They can be caused by a number of factors. Changes in technology and government policies can result in shifts of a loanable funds supply curve. Changes that make it less appealing for lenders to lend loanable funds shift the loanable funds supply curve upward or to the left. Changes that make it more appealing for lenders to lend loanable funds shift the loanable funds supply curve downward or to the right.

**Shifts of** a loanable funds demand curve are shifting of the curve itself. They can be caused by a number of factors. Changes in technology and government policies can result in shifts of a loanable funds demand curve. Changes that make it less appealing for borrowers to borrow loanable funds shift the loanable funds downward or to the left. Changes that make it more appealing for borrowers to borrow loanable funds shift the loanable funds upward or to the right.
Price control policies exist in both a labour market and a financial market. A common price control policy in a labour market is about minimum wage. **Minimum wage** acts as a price floor. Firms or producers cannot pay less than the legislated minimum wage in an economy for labour services provided by a worker. A binding minimum wage is set above the equilibrium wage. A common price control policy in a financial market is a usury law. **Usury laws** act as a price ceiling and prevent lenders of loanable funds from charging too high an interest rate. A binding usury law limits the highest interest rate at below the equilibrium interest rate.
Practice Problems

1. What is considered a “price” in a labour market?
   a) Bonus
   b) Pie
   c) Apple computers
   d) Wage

2. What is considered a “quantity” in a labour market?
   a) Number of work hours
   b) Number of machines
   c) Number of robots
   d) Number of hours in a day

3. What is considered a “price” in a financial market?
   a) Bonus
   b) Interest rate
   c) Financial hardship
   d) Cute puppy

4. What is considered a “quantity” in a financial market?
   a) Number of rich people
   b) Number of poor people
   c) Number of cute puppies
   d) Amount of loanable funds

5. Which of the following causes a movement along a labour demand curve?
   a) Change in wage level
   b) Change in technology
   c) Change in government policy
   d) All of the above

6. Which of the following causes a movement along a loanable funds supply curve?
   a) Change in interest rate
   b) Change in technology
   c) Change in government policy
   d) All of the above

7. Which of the following cannot cause a shift of a labour supply curve?
   a) Change in wage level
   b) Change in technology
   c) Change in government policy
   d) None of the above because all of the above causes a shift
8. Which of the following cannot cause a shift of a loanable funds demand curve?
   a) Change in interest rate
   b) Change in technology
   c) Change in government policy
   d) None of the above because all of the above causes a shift

9. Which of the following describes a usury law that limits the highest interest rate allowed at below the equilibrium interest rate?
   a) Binding price ceiling
   b) Non-binding price ceiling
   c) Binding price floor
   d) Non-binding price floor

10. Which of the following describes a minimum wage that limits the lowest wage rate allowed at above the equilibrium wage rate?
    a) Binding price ceiling
    b) Non-binding price ceiling
    c) Binding price floor
    d) Non-binding price floor

**Answers**

1. D
2. A
3. B
4. D
5. A * Movement Along ≠ Shift Of *
6. A * Movement Along ≠ Shift Of *
7. A * Movement Along ≠ Shift Of *
8. A * Movement Along ≠ Shift Of *
9. A
10. C