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REAL WAGES AND OPPORTUNITY COST OF WORK

Summary

Most of us earn our living by working. We supply labour (get a job) and get paid for doing things that other people tell us they want done. Even before we get a job, work is very much a part of our lives. We spend a large portion of our school years preparing for work. Probably many of you are taking this economics course because you've been told that it will help prepare you for a job- or that it will get you more pay than you're told that it will help prepare you for a job- or that it will get you more pay than you're getting in your present job. If work in the marketplace isn't already familiar to you, once you get out of school it will become so (unless you're sitting on a hefty trust fund or marry somebody who is).

Your job will occupy at least a third of your waking hours. Largely, it will define you. When someone asks you about your job, you will not answer, "I clip coupons, go out on dates, visit my children..." Instead you'll answer, "I work for the Blank Company", I am an economist, or I am a teacher." Defining ourselves by our work means that work is more than the way we get income. It is a part of our social and cultural makeup. If we lose our jobs, we lose part of our identity.

That is why in this article the labour market will be discussed as a factor market in which individuals supply labour services for wages to other individuals and to firms that need (demand) labour services.

Keywords: labour market, supply, demand, service, leisure, income taxation

Higher incomes make people richer, and richer people choose more leisure.

Given that people are far richer today than they were 50 or 100 years ago, it isn't surprising that they work less. What's surprising is that they work as much as they do- eight hours a day rather than the four or so hours a day that would be enough to give people the same income they had a century ago.

The explanation of why people have not reduced their hours of work can be found in how leisure has changed. A century ago, conversation was an art. People could use their time for long, leisurely conversations. Letter writing was a skill all educated people had, and cooking dinner was a three-hour event. If today people were satisfied with leisure consisting of long conversations, whittling, and spending qua-

lity time with their families rather than skiing, golfing, or travelling, they could get by with working perhaps only four or five hours per day instead of eight hours. However, that is not the case. (¹David Sapsford, Zafiris Tzannatos. *The Economics of the Labour Market*, London, 1993, p. 45).

Modern gadgets increase the efficiency of leisure but cost money, which means people must work more to enjoy their leisure.

The fast pace of modern society has led a number of people to question whether we, as a society, are better off working hard to play hard. Are we better off or simply more harried?

Economists do not try to answer the normative question of whether people are better off today, working hard to play hard, or simply are more harried.

Because labour income is such an important component of most people's total income, when wages change other things often do not stay equal, and at times, the effect can seem strange.

For example, say that you earn \$10 an hour and you decide to work eight hours per day.

(W. Erwin Diewert, John Greenlees, Charles R. Hulten, *Price Index Concepts and Measurement*, p 165)

Suddenly demand for your services goes up and you find that you can receive \$40 an hour. Will you decide to work more hours? According to the rational choice rule, you will, but you might also decide that at \$40 an hour you will work only six hours a day- \$240 a day is enough; the rest of the day you want leisure time to spend your money. In such a case, a higher wage means working less.

The higher wage makes you decide to work more-as the rational choice rule says; but the effect of the higher wage is overwhelmed by the effect of the higher income that allows you to decide to work less. (²Palgrave Macmillan, Raja Junankar, "Economics of the Labour Market:" USA, 2016 (p.38.)

To distinguish between these two effects, economists have given them names. The decision, based on the rational choice rule, to work more hours when your pay goes up is called the substitution effect. You substitute work for leisure because the price of leisure has risen. The decision to work fewer hours when your pay goes up, based on the fact that you're richer and therefore can live a better life, is called the income effect.

It's possible that the income effect can exceed the substitution effect, and a wage increase can cause a person to work less, but that possibility does not violate the rational choice rule, which refers to the substitution effect only.

The supply of labour and nonmarket activities

In addition to leisure, labour supply issues and market incentives play an important role in other nonmarket activities. For example, there's a whole set of illegal activities, such as selling illegal drugs, that are alternatives to taking a legal job.

For middle-class individuals who have prospects for good jobs, the cost of being arrested can be high-an arrest can destroy their future prospects.

For poor-class street individuals with little chance of getting a good job, an arrest makes little difference to their future. For them the choice is heavily weighted toward selling drugs. This is especially true for the entrepreneurial types- the risk takers- the movers and shakers who might have become the business leaders of the future.

Prohibiting certain drugs leads to potentially high income from selling those drugs and has significant labour market effects. The incentive effects that prohibition has on the choices of jobs facing poor teenagers is a central reason why some economists support the legalization of currently illegal drugs. (National Research Council, "At What Price?" p. 57)

Income taxation, work, and leisure

It is after-tax income, not before-tax income, which determines how much you work.

An increase in the marginal tax rate is likely to reduce the quantity of labour supplied because it reduces the net wage of individuals and hence, via individuals' incentive effect, causes them to work less.

One main reason why the U.S. government reduced marginal income tax rates in the 1980s was to reduce the negative incentive effects of high taxes.

European countries, which have relatively high marginal tax rates, are struggling with the problem of providing incentives for people to work.

Reducing the marginal tax rate in the United States hasn't completely eliminated the problem of negative incentive effects on individuals' work effort, because the amounts people receive from many other government programs are tied to earned income. When your earned income goes up, your benefits from these other programs go down. For example, you are getting welfare and you're deciding whether to take a \$6-an-hour job. Social Security and income taxes reduce the amount you take home from the job by 20 %, to \$4.80 an hour. Nevertheless, the Welfare Department will reduce your welfare benefits by 50 cents for every dollar you take home. This means you lose \$2.40 per hour, so the marginal tax rate on your \$6-an-hour job isn't 20 percent; it's 60 %. By working an hour, you've increased your net income by only \$2.40. When you consider the transportation cost of getting to and from work, the expense of getting new clothes to wear to work, the cost of childcare, and other job-associated expenses, the net gain in income is often minimal. Your implicit marginal tax rate is almost 100 %.

The negative incentive effect can sometimes be even more indirect. For example, college scholarships are generally given based on need. A family that earns more gets less in scholarship aid; the amount by which the scholarship is reduced as a family's income increases acts as a marginal tax on individuals' income. Why work

hard to provide for yourself if a program will take care of you if you don't work hard? The any need-based assistance program reduces the people's incentive to prevent themselves from being needy.

Wage elasticity of labour supply

The wage elasticity of supply of labour is the sensitivity of the supply of labour to a change in the wage rate.

This is affected by the specific skills and educational requirements: the more complicated the skills and the higher, or longer to achieve, the qualifications required, the more inelastic the supply.

If the role has a significant vocational aspect, such as nursing, individuals are less sensitive to changes in pay making the supply more elastic.

The time period under consideration is also a factor affecting the supply: in the short run, the supply curve of labour tends to be inelastic as it takes time for people to respond to changes in relative wages.

Elasticity of market supply depends on:

- Individuals' opportunity cost of working.
- The type of market being discussed.
- The elasticity of individuals' supply curves.
- Individuals entering and leaving the labour market.

If a large number of people are willing to enter the labour market when wages rise, then the market labour supply will be highly elastic even if individuals' supply curves are inelastic.

The elasticity of the labour supply facing one firm in a small town will likely be far greater than the elasticity of the labour supply of all firms in that town. If only one firm raises its wage, it will attract workers away from other firms; if all the firms in town raise their wages, any increase in labour must come from increases in labour force participation, increases in hours worked per person, or in-migration.

Existing workers prefer inelastic labour supplies because that means an increase in demand for labour will raise their wage by more. Employers prefer elastic supplies because that means an increase in demand for labour doesn't require large wage increases. These preferences can be seen in new reports about U.S. immigration laws, their effects, and their enforcement. Businesses such as hotels and restaurants often oppose strict immigration laws. (4, p189) Because of the importance of the elasticity of labour supply, economists have spent a great deal of time and effort estimating it. Their best estimates of labour supply elasticities to market activities are about 0.1 for heads of households and 1.1 for secondary workers in households. These elasticity figures mean that a wage increase of 10 % will increase the quantity of labour supplied by 1 % for heads of households (an inelastic supply) and 11 percent for secondary workers in households (an elastic supply). (3, p.93)

References

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Real əmək haqqı və iş fürsəti dəyəri

Xülasə

Çoxumuz çörəyimizi işləməklə qazanırıq. Biz iş təmin edirik (işə düzəlirik) və başqalarının bizə istədiklərini söylədikləri işləri görməyimizə görə maaş alırıq. İşə başlamazdan əvvəl də iş həyatımızın çox hissəsidir. Məktəb illərimizin böyük bir hissəsini işə hazırlaşırıq. Yəqin ki, bir çoxunuz bir iqtisadiyyat kursunu alırsınız, çünki sizə bir işə hazırlaşmağa kömək edəcəyini və ya sizə işə hazırlaşmanıza kömək edəcəyini söylədiyinizdən daha çox maaş alacağınızı söylədiyinizə görə indiki işinizdə aldiyinizdən daha çox maaş alacaq.

İşiniz oyanma saatlarınızın ən azı üçdə birini tutacaqdır. Böyük ölçüdə sizi müəyyənləşdirəcəkdir. Biri səndən işini soruşduqda, “Kupon çəkirəm, görüşə çıxıram, övladlarımı ziyarət edirəm ...” deyə cavab verməyəcəksiniz, bunun əvəzinə “Boş Şirkətdə işləyirəm”, iqtisadçıyam, ya da mən müəlliməm ”dedi. İşimizlə özümü müəyyənləşdirmək, işin gəlir əldə etmək yolumuzdan daha çox olması deməkdir. Bu, sosial və mədəni quruluşumuzun bir hissəsidir. İşimizi itirsək, şəxsiyyətimizin bir hissəsini itiririk.

Odur ki, bu məqalədə əmək bazarı fərdlərin əmək haqqı üçün digər şəxslərə və əmək xidmətinə ehtiyacı olan (tələb edən) firmalara əmək xidmətləri təqdim etdiyi bir amil bazarı kimi müzakirə ediləcəkdir.

Açar sözlər: əmək bazarı, təklif, tələb, xidmət, istirahət, gəlir vergisi

Н.И. Гасымова

**Реальная заработная плата и альтернативная стоимость труда
Резюме**

Большинство из нас зарабатывают себе на жизнь работой. Мы предоставляем рабочую силу (устраиваемся на работу) и получаем деньги за то, что другие люди говорят нам, что они хотят делать. Даже до того, как мы устроимся на работу, работа является неотъемлемой частью нашей жизни. Большую часть школьных лет мы проводим, готовясь к работе. Вероятно, многие из вас посещают курс экономики, потому что верят, что он поможет вам подготовиться к работе - или что он принесет вам больше заработной платы. Если работа на рынке вам еще не знакома, как только вы выйдете из учебного заведения, она станет таковой (если только вы не сидите в солидном трастовом фонде или не женитесь на ком-то, кто знаком).

Ваша работа будет занимать не менее трети часов вашего бодрствования. Во многом это определит вас. Когда кто-то спросит вас о вашей работе, вы не ответите: «Я вырезаю купоны, хожу на свидания, навещаю своих детей...» Вместо этого вы ответите: «Я работаю в Blank Company», я экономист или я учитель. Определение себя по своей работе означает, что работа - это больше, чем способ получения дохода. Это часть нашего социального и культурного облика. Если мы потеряем работу, мы потеряем часть нашей идентичности.

Вот почему в этой статье рынок труда будет обсуждаться как факторный рынок, на котором отдельные лица предоставляют услуги труда за заработную плату другим лицам и фирмам, которые нуждаются в услугах рабочей силы.

Ключевые слова: рынок труда, обеспечение, спрос, услуга, досуг, налогообложение доходов

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