



**Theme 9. Factor markets and  
the formation of factor revenue**



# **1. Peculiarities of demand for resources**

- **Pricing in the market factor plays an important role in the economy: it determines the amount of each person in a manufactured product, income and welfare of all members of society.**

## **Factors affecting demand, respectively, and the price of resources:**

**the demand for factors of production and the level of prices are derived from consumer demand as labor, capital, land is needed, in the end, in order to make people needed commodities**

**all factors of production economically and technologically interconnected, they can not be used separately**



## **2. Labor market and wage**

**Wages** is the price paid for a unit of work for some time: the year or the day, etc.

**Under nominal wage**

means the sum of money that gets paid employees for their daily, weekly, monthly labor.

**Real wages** - is the mass of vital goods and services that can be bought for the money.

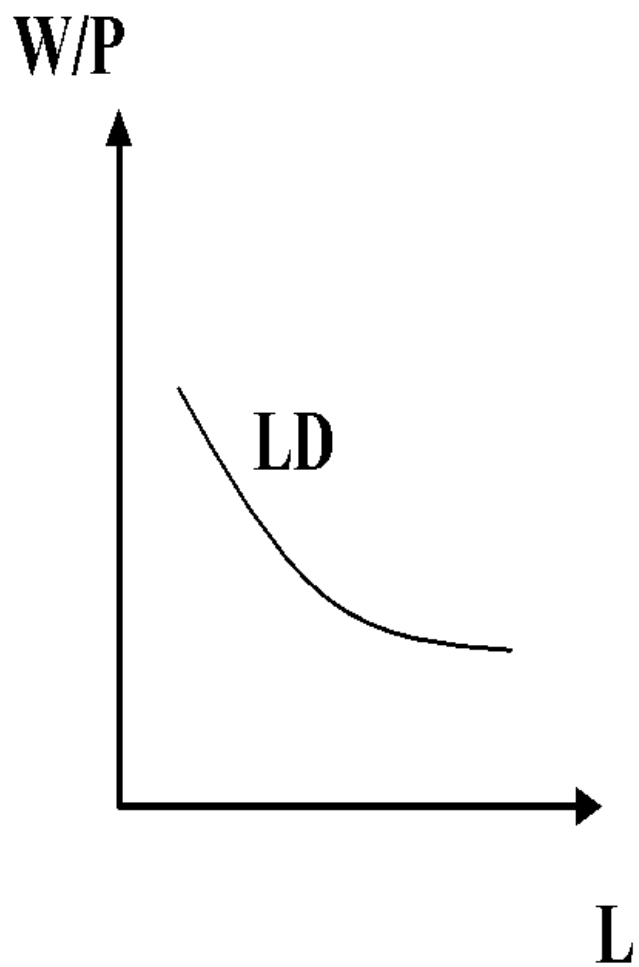


Fig. 12. The demand curve for labor

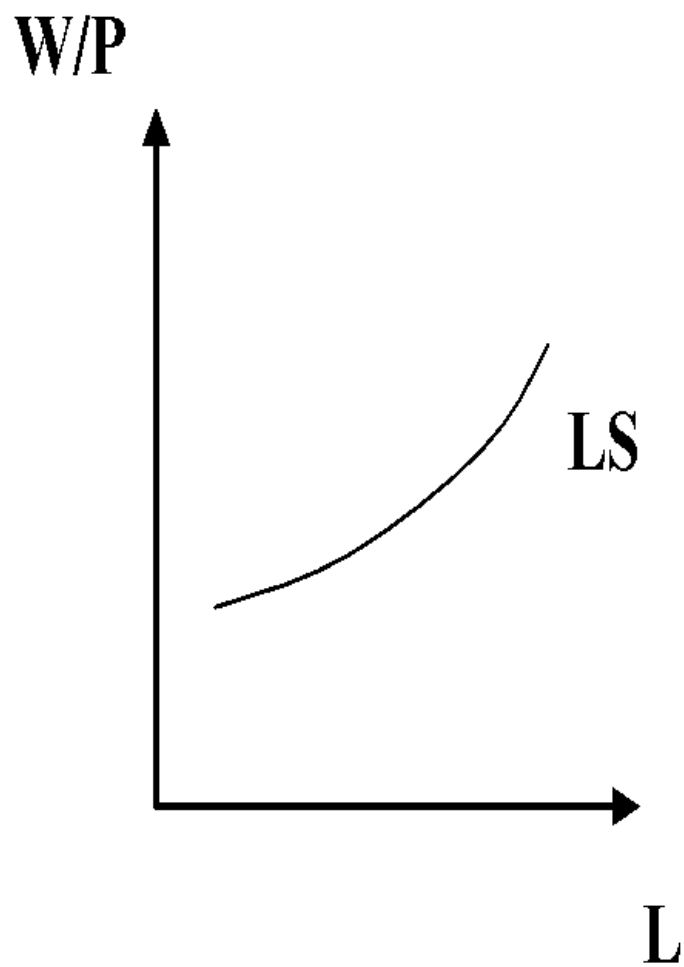


Fig. 13. Labor supply curve

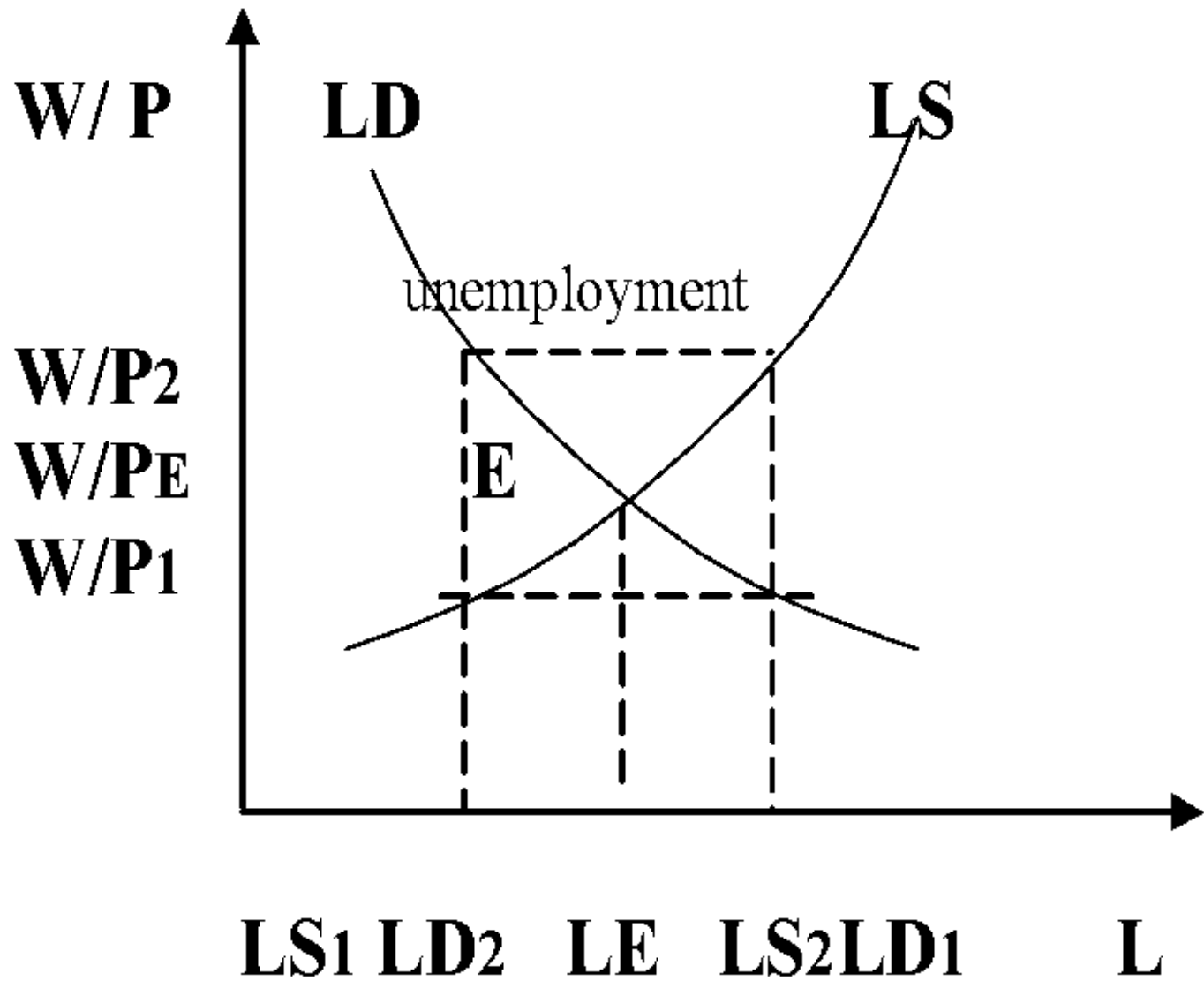


Fig. 14 Equilibrium in the labor market

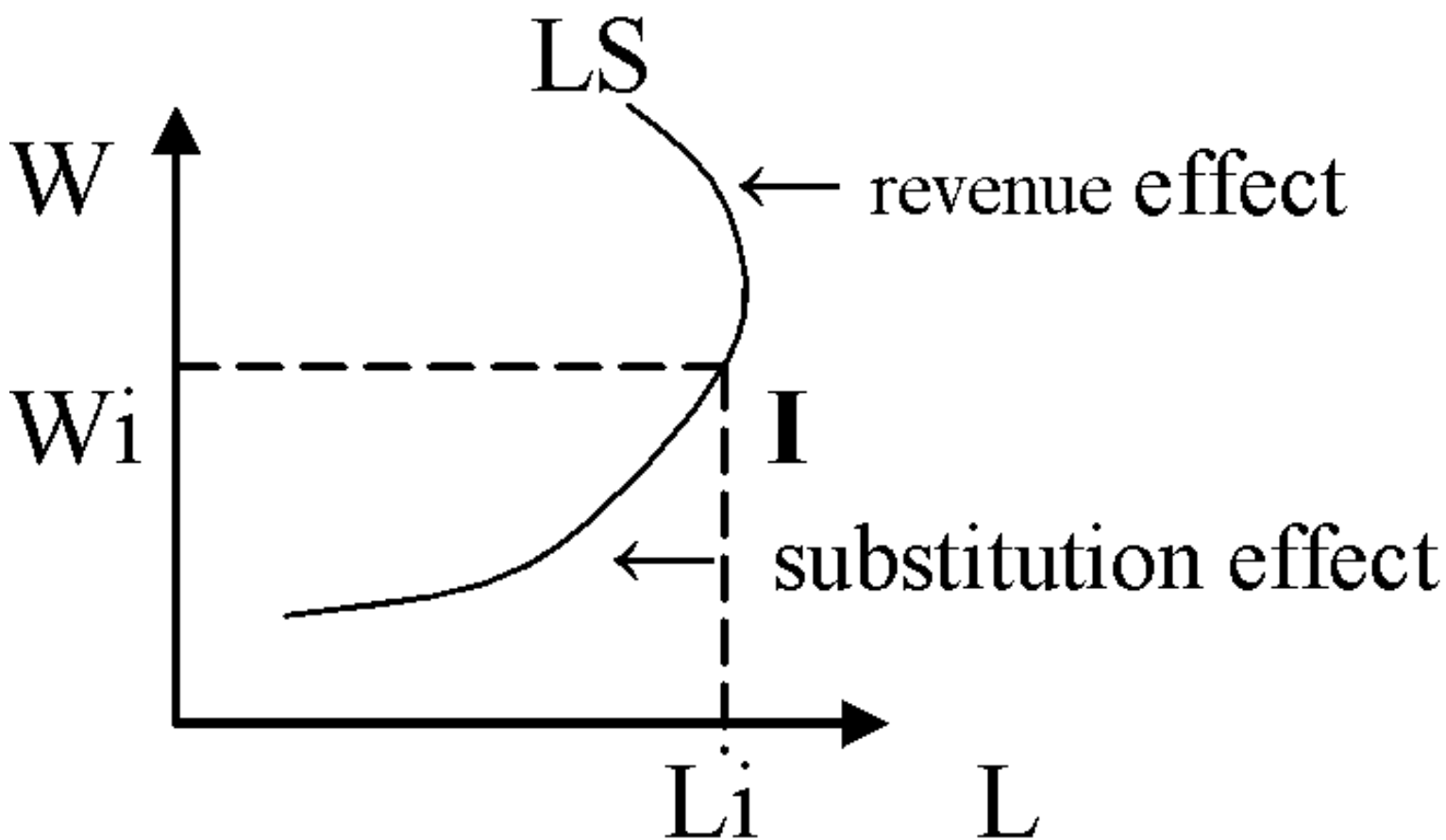


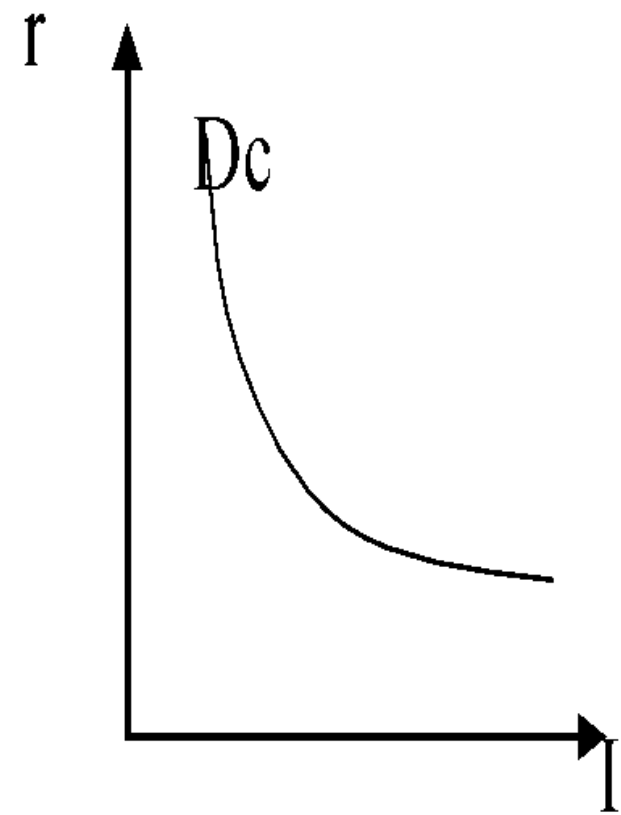
Рис. 14. Offer individual labor



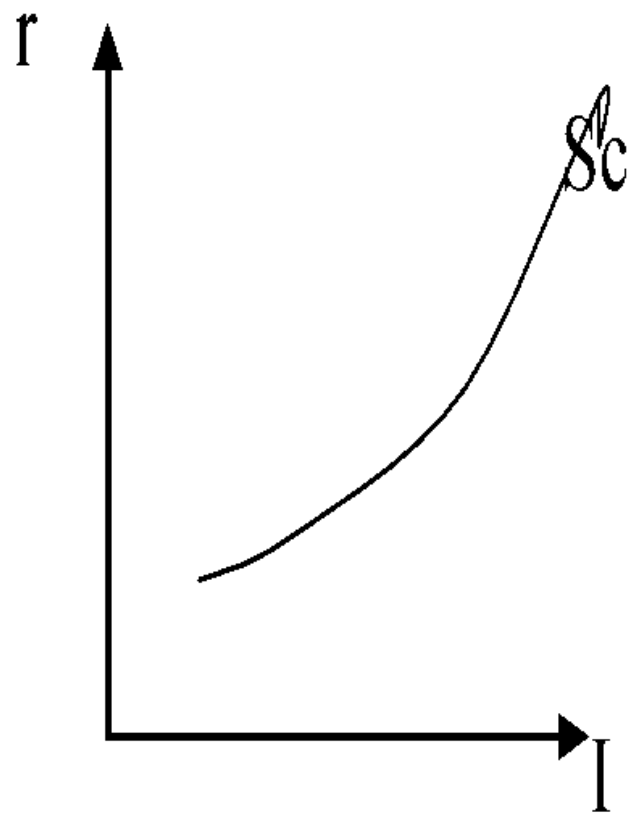


# **3. Capital markets and interest rates**

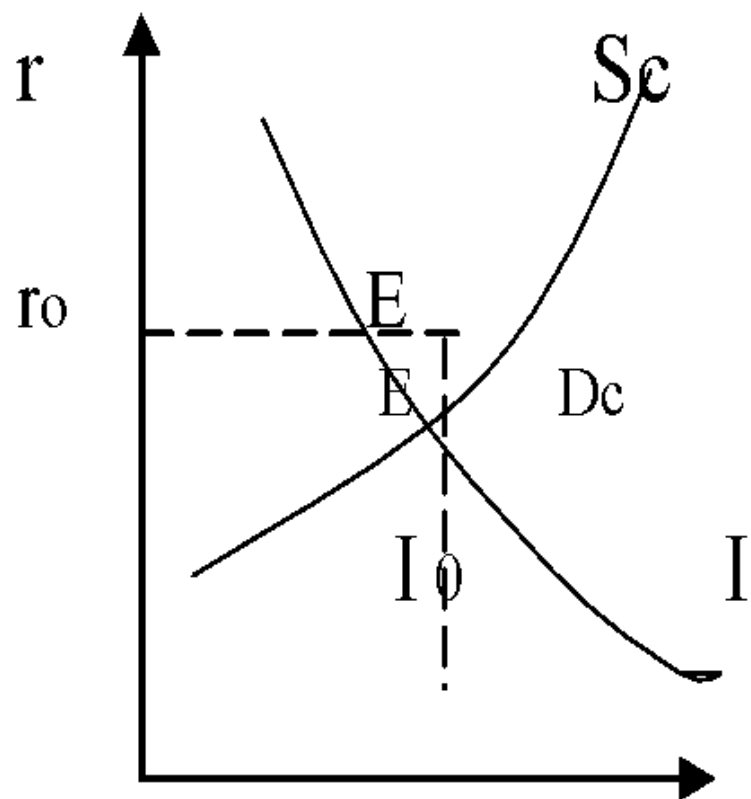
- **Demand for capital** - is the demand for investment funds, and not just for money. When we talk about the demand for capital, as a factor of production, we are referring to the demand for investment funds required for the acquisition of capital in its physical form (Figure 16).
- **Supply of capital.** Population offers business machines, equipment in their physical expression. Housekeeping offers investment funds, ie amount of money that a business uses to acquire productive assets (Figure 8)



**Fig. 16. Demand for capital**



**Fig. 17. Supply of capital**



$r$  - the rate of interest  
 $I$  - investment resources

Fig. 18. Equilibrium in the capital market



**4. The land market. Land  
rent**

- **Land** belongs to the type of resource, with absolutely no elastic supply, since the change in prices of its total land offered for sale, will not change. The main condition for the emergence of rent is the fact that *the limited supply of land*.
- **The market price** of the land will be determined under the influence of the general demand for a fixed amount of land. Then the land owners will receive income in **the form of rent**.
- **Economic rent** - is the price of land to be paid to the owner for the opportunity to productive use of the land and make a profit.

# Land rent

At the heart of obtaining absolute ground rent are differences in the effectiveness of capital investments in the land.

Differential land only occurs on the land, which have natural fertility.

Land rent - this is the price of land services.

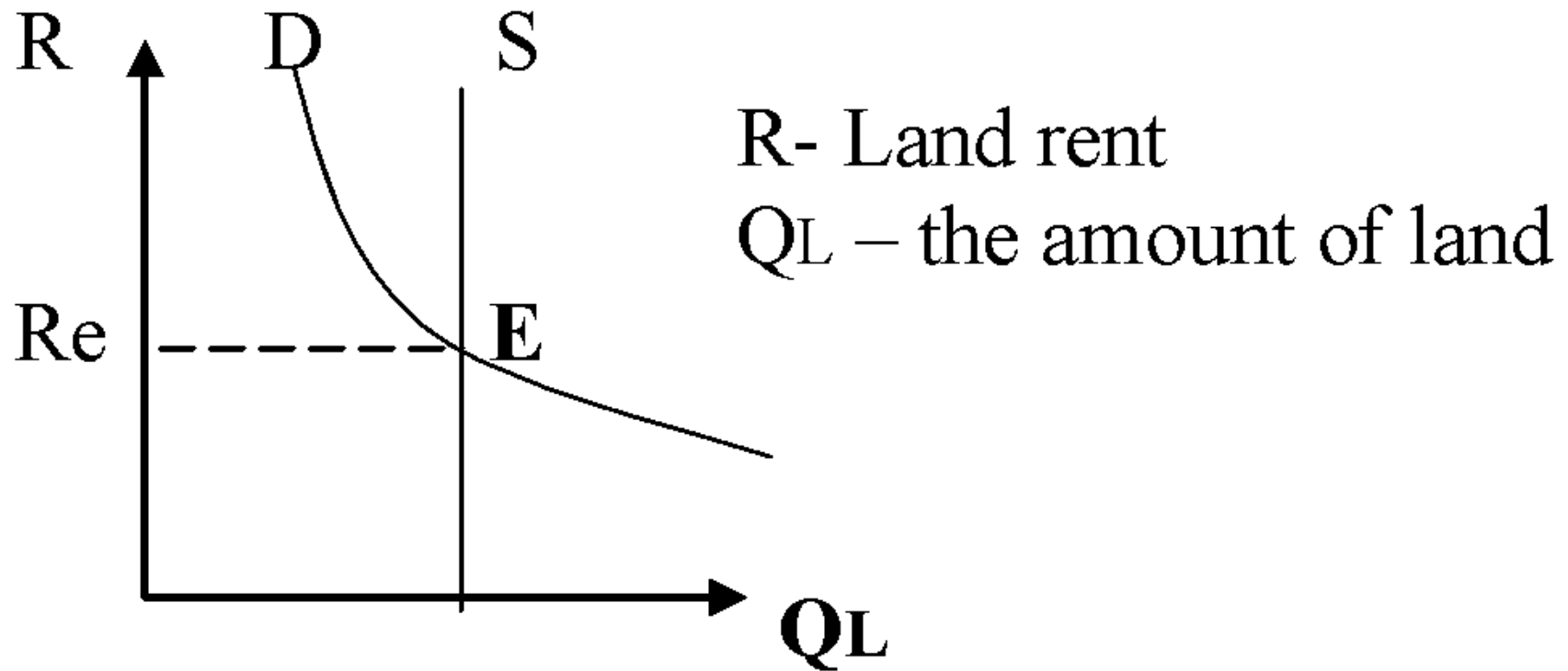


Fig. 19. Equilibrium in the land market