

The Demand for Resources

We now turn from pricing and production of goods and services to pricing and employment of resources. In reference to the circular flow model, we shift our attention from the bottom loop of the diagram (where businesses supply products that households demand) to the top loop (where businesses demand resources that households supply).

When you finish your education, why would someone want to hire you? The answer is that you have a lot to offer. Employers have a demand for educated, productive workers. Firms demand resources from households—the direct or indirect owners of land, labor, capital, and entrepreneurial resources.

This chapter looks at the *demand* for economic resources. Although the discussion is couched in terms of labor, the principles developed also apply to land, capital, and entrepreneurial ability. In Chapter 15 we will combine resource (labor) demand with labor *supply* to analyze wage rates. In Chapter 16 we will use resource demand and resource supply to examine the prices of, and returns to, other productive resources. Chapter 17 presents issues relating to the use of natural resource.