

Wage Determination

Nearly 140 million Americans go to work each day. We work at an amazing variety of jobs for thousands of different firms, and receive considerable differences in pay. What determines our hourly wage or annual salary? Why is the salary for, say, a topflight major-league baseball player \$15 million a year, while the pay for a first-rate schoolteacher is \$50,000? Why are starting salaries for college graduates who major in engineering and accounting so much higher than those for graduates majoring in journalism and sociology?

Building on the model of labor demand, we now bring labor supply into our analysis to help answer these questions. Generally, labor supply and labor demand interact to determine the level of hourly wage rates using the $MRP=MRC$ formula from Chapter 14. Collectively, those wages and salaries make up about 70 percent of all income paid to American resource suppliers.