The demand for labour will also depend on labour productivity, the price of the good and their overall profitability to a firm. Derived demand. This shows how the demand for baristas depends on demand for takeaway coffee. Marginal Revenue Product of Labour (MRP). This is an economic theory which suggests demand for labour depends on the marginal revenue product of a worker. MRP = MPP x MR. It depends on a workers productivity (PPP) and the Marginal Revenue (MR) of the last good sold. Definition of Marginal Physical Product (MPP). This is the extra output that an extra worker produces. Due to the law of diminishing returns, in the short run, there is usually a diminishing marginal product when increasing the number of workers. Marginal Revenue (MR). Demand for Labor: The Neglected Side of the Market. Daniel S. Hamermesh.

Confronting theoretical models with empirical 'facts' of how a firm's labor demand responses to exogenous shocks provides 'a dose of reality to the more fanciful flights of macroeconomic theory.' The book is essential reading.”—Robert A. Hart, Journal of Pol. The book collects articles published by Daniel Hamermesh between 1969 and 2013 dealing with the general topic of the demand for labor. The first section presents empirical studies of basic issues in labor demand, including the extent to which different types of labor are substitutes, how firms' and workers' investments affect labor turnover, and how costs of adjusting employment affect the dynamics of employment and patterns of labor turnover. The second section examines the impacts of various labor-market policies, including minimum wages, penalty pay for using overtime hours or hours. The participants in the labor market are workers and firms. Workers supply labor to firms in exchange for wages. Firms demand labor from workers in exchange for wages. The firm's demand for labor. The firm's demand for labor is a derived demand; it is derived from the demand for the firm's output. The perfectly competitive firm's profit-maximizing labor demand decision is to hire workers up to the point where the marginal revenue product of the last worker hired is just equal to the market wage rate, which is the marginal cost of this last worker. For example, if the market wage rate is $50 per worker per day, the firm's whose marginal revenue product of labor is given in Table would choose to hire 3 workers each day. The firm's labor demand curve.