

CHAPTER 10

CHAPTER 10 - THE DEMAND FOR RESOURCES

Significance of Resource Pricing

1. **Money** - income determination, resource prices (rent, wage, interest) - incomes to households - are these decisions profitably made?
 2. **Resource allocation** - prices of goods
 3. **Cost minimization** - resource prices are costs
- **Resource demand is a derived demand**

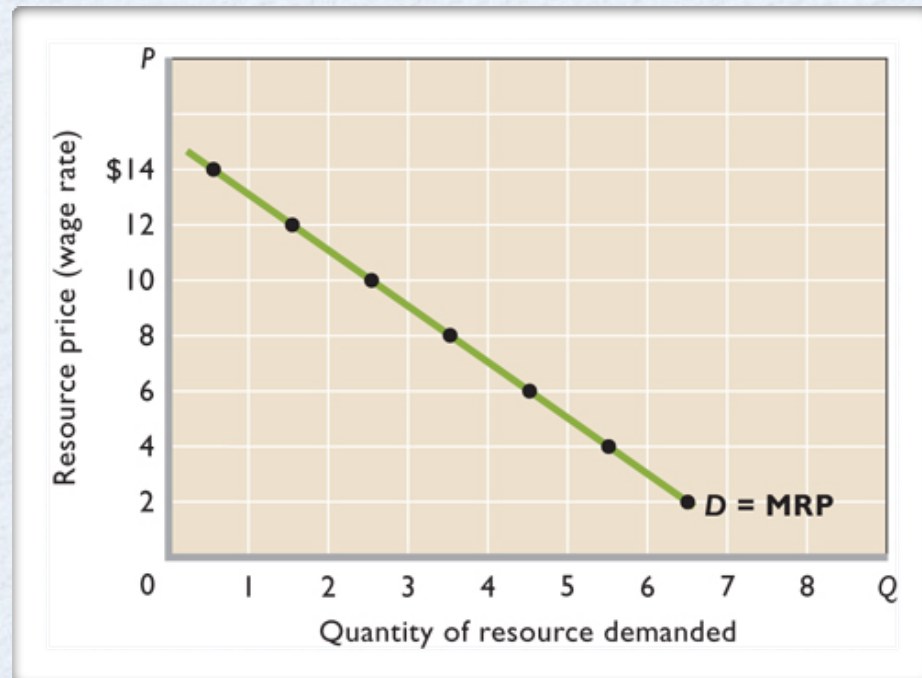
Marginal Productivity Theory of Resource Demand

- Rule for employing resources - **D or MRP = S (MRC - marginal resource cost)**

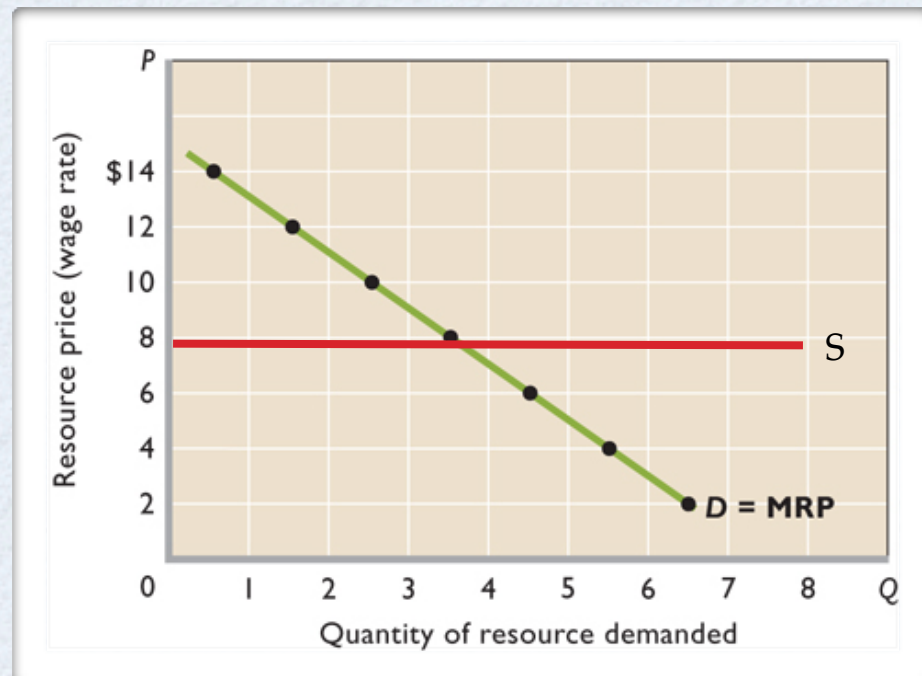
MRC = Wage = \$13.95 - Hire 1 worker

(1) Units of Resource	(2) Total Product (Output)	(3) Marginal Product (MP)	(4) Product Price	(5) Total Revenue, (2) × (4)	(6) Marginal Revenue Product (MRP)
0	0		\$2	\$ 0	
1	7	7	2	14	\$14
2	13	6	2	26	12
3	18	5	2	36	10
4	22	4	2	44	8
5	25	3	2	50	6
6	27	2	2	54	4
7	28	1	2	56	2

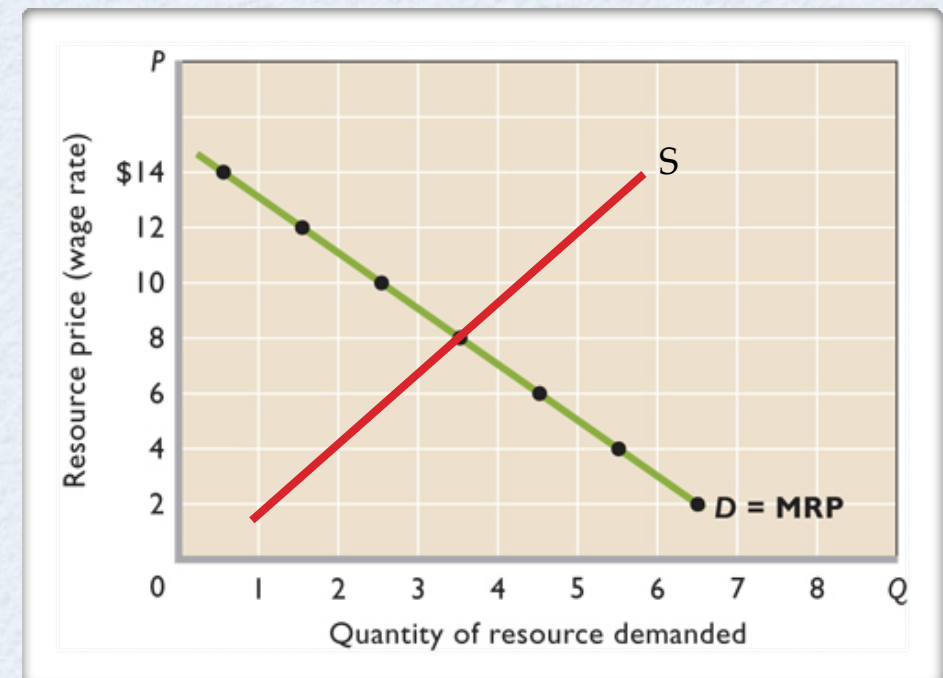
Marginal Productivity Theory of Resource Demand



- Each point shows the number of workers the firm would hire at each possible wage rate - **competitive market**



- **Equilibrium - competitive firm**



- **Equilibrium - competitive market**