

Principles of Microeconomics

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4 Introduction to Labor and Financial Markets

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Figure 1. People often think of demand and supply in relation to goods, but labor markets, such as the nursing profession, can also apply to this analysis. (Credit: modification of work by "Fotos GOVBA"/Flickr Creative Commons)

BABY BOOMERS COME OF AGE

The Census Bureau reports that as of 2013, 20% of the U.S. population was over 60 years old, which means that almost 63 million people are reaching an age when they will need increased medical care.

The baby boomer population, the group born between 1946 and 1964, is comprised of approximately 74 million people who have just reached retirement age. As this population grows older, they will be faced with common healthcare issues such as heart conditions, arthritis, and Alzheimer's that may require hospitalization, long-term, or at-home nursing care. Aging baby boomers and advances in life-saving and life-extending technologies will increase the demand for healthcare and nursing. Additionally, the Affordable Care Act, which expands access to healthcare for millions of Americans, will further increase the demand.

According to the Bureau of Labor Statistics, registered nursing jobs are expected to increase by 19% between 2012 and 2022. The median annual wage of \$67,930 (in 2012) is also expected to increase. The BLS forecasts that 526,000 new nurses will be needed by 2022. One concern is the low rate of enrollment in nursing programs to help meet the growing demand. According to the American Association of Colleges of Nursing (AACN), enrollment in 2011 increased by only 5.1% due to a shortage of nursing educators and teaching facilities.

These data tell us, as economists, that the market for healthcare professionals, and nurses in particular, will face several challenges. Our study of supply and demand will help us to analyze what might happen in the labor market for nursing and other healthcare professionals, as discussed in the second half of this case at the end of the chapter.

INTRODUCTION TO LABOR AND FINANCIAL MARKETS

In this chapter, you will learn about:

- Demand and Supply at Work in Labor Markets
- Demand and Supply in Financial Markets
- The Market System as an Efficient Mechanism for Information

The theories of supply and demand do not apply just to markets for goods. They apply to any market, even markets for labor and financial services. Labor markets are markets for employees or jobs. Financial services markets are markets for saving or borrowing.

When we think about demand and supply curves in goods and services markets, it is easy to picture who the demanders and suppliers are: businesses produce the products and households buy them. Who are the demanders and suppliers in labor and financial service markets? In labor markets job seekers (individuals) are the suppliers of labor, while firms and other employers who hire labor are the demanders for labor. In financial markets, any individual or firm who saves contributes to the supply of money, and any who borrows (person, firm, or government) contributes to the demand for money.

As a college student, you most likely participate in both labor and financial markets. Employment is a fact of life for most college students: In 2011, says the BLS, 52% of undergraduates worked part time and another 20%

worked full time. Most college students are also heavily involved in financial markets, primarily as borrowers. Among full-time students, about half take out a loan to help finance their education each year, and those loans average about \$6,000 per year. Many students also borrow for other expenses, like purchasing a car. As this chapter will illustrate, we can analyze labor markets and financial markets with the same tools we use to analyze demand and supply in the goods markets.

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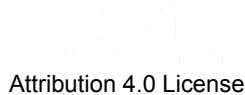
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