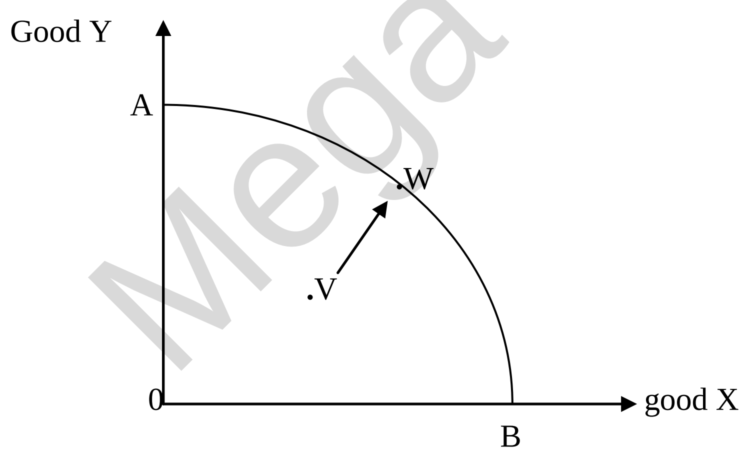
6. LABOUR PRODUCTIVITY:

Productivity of labour or efficiency of labour refers to the amount of output produced per unit of labour per unit of time, usually in 1 hour. More precisely, labour productivity refers to output per worker and it is calculated as follows:

$$\text{Labour productivity} = \frac{\text{total output}}{\text{Number of workers}}$$

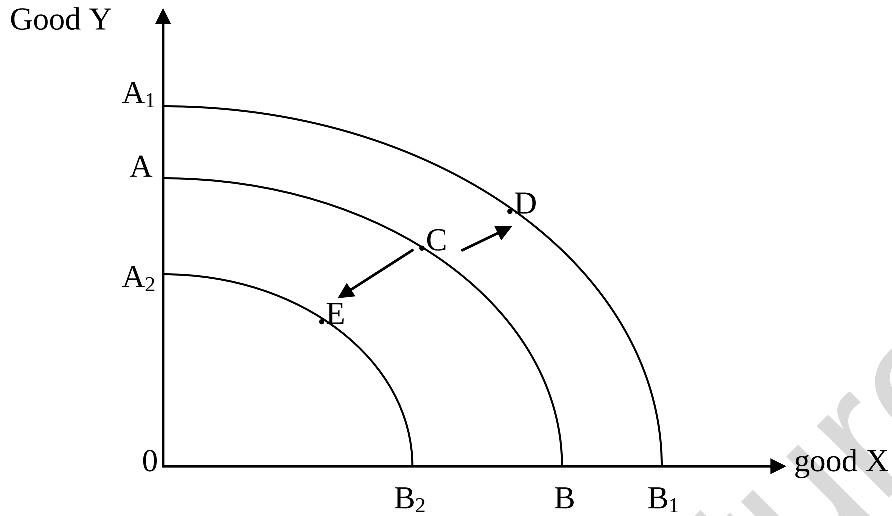
Improving the productivity of labour is a matter of concern to all governments. This is because the faster the rate of growth in labour productivity, the faster is likely to be the country's rate of economic growth. Labour productivity depends upon a number of factors such as education and training, working conditions, welfare services, motivation and using the most efficient methods of production. Hence, changes in these factors cause changes in labour productivity and these can be illustrated by means of an economy's production possibility curve.

First and foremost, assume that some workers are unemployed. In other words, the resources are not used in the most efficient way possible. Thus, the nation may be producing at a point inside the curve. But if there is an improvement in labour productivity so much so that all workers are fully employed and the economy is using the most efficient methods of production, then the nation could move out on to the curve from within. This can be shown as follows:



By making a fuller use of labour, the nation could move from point V inside the curve to point W on the curve. It could thus produce more of both goods.

Moreover, improvement in labour productivity due to better training and education or better management causes an outward shift in the economy's production possibility curve. This implies that labour has become more efficient and produces more goods. On the other hand, if labour productivity falls due to poor working conditions, the economy's production possibility curve shifts inwards implying that labour has become inefficient and produces less goods. These changes in labour productivity can be illustrated as follows:



Improvement in labour productivity causes an outward shift in the economy's PPC, that is from point C on the curve AB to point D on the curve A^1B^1. On the other hand, inefficiency of labour causes the PPC to shift inward from point C to point E.

Besides, changes in labour productivity may result in a pivoting of the production possibility curve if one of the goods produced is more labour intensive.