The demand for labour is derived from the demand for final goods and services. Firms demand workers who are paid wages.

Workers supply labour according to their willingness to participate in the labour market at the given wage.

At low wages – $Q_D$ high, $Q_S$ low
At high wages – $Q_D$ low, $Q_S$ high
Workers supply of labour is remains constant as they would like jobs at the given wage. But the firms demand for labour is falling ($D_{L2}$).

If the market was working perfectly we would assume that wages fall. But wages are downwards sticky. Therefore $AS_L$ is greater than the $AD_L$

\[ Q_{L1} - Q_{L2} = \text{involuntary unemployment} \]
\[ Q_{L1} - Q_{\text{Full}} = \text{voluntary unemployment} \]

\[ W_1 - \text{in the LR wages will fall to this level} \]
Real Wages are artificially higher than the market equilibrium.

Workers supply of labour is very high, but the firms demand for labour is low.

\[(\text{AS}_L \text{ greater AD}_L) = \text{surplus of labour}\]

Therefore we have a disequilibrium where the market cannot clear the surplus of jobs.

**Real Wage Unemployment**

This is a neo-classical view of unemployment. They feel that high wages, caused by trade union power and government minimum wage legislation lead to a form of involuntary unemployment.
Even when the Labour Market is in equilibrium there are people who are unemployed. These are people who chose not to work at the given wage rate. Technically they are still part of the Total Labour Force as they are able to work but not willing.

At higher wages the level of voluntary employment is smaller, compare to lower wages, where workers are less willing to work.