

Course Name- Complete guide for campus interviews: Step by step preparation for Internships and Full-time jobs

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Week-01

Lecture-05

Labor Markets

Hello everyone. We'll talk about labor markets in this conversation and I've been working in labor markets. I'm a labor economist by training and the goal for today is we'll get into the details of what are labor markets. We'll talk about how you can understand labor markets yourself and use those decision points to help you make career decisions. So labor markets is not just about economics, it's also about how you can leverage the data which companies also source from and make decisions for yourself. So we'll talk about macroeconomics, the big picture.

We'll begin from there and then we'll talk about again the details in terms of what does it mean for you. Let's begin with talking about the macroeconomics. I am not going to get into too much detail on this slide which is about supply and demand, but I just want you to know that all of labour economics, all of economics rests upon the supply and demand curves. It talks about price, it talks about quantity and typically price can be considered like a proxy for compensation and then if you are looking at quantity, you can look at the number of job seekers in the market rate.

That is a rough way to approximate the labour market of pure economics to this current conversation in terms of job markets. Then you have a supply curve and then you have a demand curve. Just note how these curves are. This is very important. They meet at a certain point which is called equilibrium.

So there is a lot you can study by yourself. You can pick up any standard book on economics and study what supply curves are and demand curves are. But we are going to focus today's conversation only on a specific thing which is how can you utilize these curves for your advantage. In short, what I want to say is when you are looking at the supply and demand curves, you always want to be in a job with a lot of recruiters and recruiters are a proxy for demand. So, you want to be in a place where demand is high and you want to be in a place where the supply of people who are your competitors and peers is going to be low.

So, demand high, supply low is what you really have to be shooting for and I will again get into more details, I illustrate this with more examples. So let's look at the law of supply. Most important two laws we'll touch here, law of supply, law of demand. So the first thing about law of supply is that you're talking mainly about supply of job seekers. So that's what you're interested in.

There are multiple ways of interpreting what supply means, but this is specifically a conversation about job seekers. So what happens is if there is Supply is going to increase dramatically. What's going to happen is that the compensation is also going to decrease. And when the supply decreases, the compensation increases. So if there are a lot of people like you in the market, if there are a lot of supply of folks in the market, what happens is that

Compensation will decrease because companies will find that you don't need to pay so much to get candidates.

You can pay much lower and get good candidates. Like currently in the layoff situation we are facing right now all across the world, when there's a lot of people in the market, even people laid off or entering the labor force, what this means is companies have too many applicants. So there's no problem with applicants. And they find that even by giving lesser compensation, still you can get fantastic applicants. So compensation is limited, but at the same time if the supply decreases, for example if you look at the labor market of say people with a doctoral degree, people who do medical degrees and become a doctor, the supply of them is always minimal.

There are not too many people like them in the market. So when supply is less, clearly at the same time the compensation has also got to be much higher. So that's why an average doctor will always get paid a lot more than the average engineer. Let's look at the law of demand. So if you're looking at demand specifically, again, let's be clear that it's not talking about any other group, but it's talking about recruiters.

It refers to the demand of recruiters. As the demand increases, compensation again will play accordingly. If there's a lot of demand, then compensation is also gonna increase. And as the demand decreases, compensation is also gonna decrease. So there's a difference in the way demand works and the way supply works.

So keep that in mind, what demand means and supply is. So in terms of what is the value of experience you bring to the table, what you have to typically be doing is that you want to be in a scenario where the supply is less. So let's consider a scenario where you're getting promoted at work. Why should you get promoted at work and why should every promotion come with a compensation increase? So what really is happening in this scenario is as you get promoted in the workplace, there are lesser people with larger amount of work experience. So the number of people with say one year of experience is always going to be lesser than the number of people with zero work experience.

So as the group becomes smaller and smaller, as the supply decreases, compensation is going to increase. So if you're working in a company, again, as you spend years in a company, the number of people competing with you for the same jobs is also going to decrease. And as it decreases, your compensation is going to increase. Clearly, what happens to the people who are leaving the market? They will probably go for other jobs, right? That's always going to happen. They may leave engineering jobs and go to, say, the government services.

They may leave for other startup jobs. They may set up their own companies. So this means that these folks are exiting the workplace. That way, the supply of them is decreasing, and that's the reason why compensation increases for the people who are still left behind. Likewise, again, if you have a lot more work experience, companies love you because you bring a lot more skills to the table.

So there's a lot more demand for you. And as more companies want people with work experience because there's a lot more contribution you can make. The more skills you have, the more people skills you have, the more business skills you have, the more technical skills you have, you can make a lot of difference. You can sell more, you can talk to customers, you can deal with different stakeholders, and you can gain a lot of people management responsibility at

the same time. So the more work you can do, the demand is high, your composition is also going to be higher.

Let's look at the value of work experience in terms of, okay, so we shared a couple of examples, but you get a good sense of where this is heading towards. The first point is that Managers get paid more than engineers. And we have discussed the reason why, right? So managers firstly have more skills. There's a lot more demand for them. And there's also a lesser number of them in the market compared to an average engineer.

So again, there is more demand and less supply of them. So managers tend to get paid more than engineers. Likewise, the same way directors and executives like vice presidents get paid more than directors. So directors get paid more than managers and vice presidents get paid more than the directors themselves. All this is driven by the same factors that when you're looking at two factors of demand and supply, you're clearly seeing that the supply is coming down and demand is going up.

So that's exactly what's happening at different places. And as long as that continues, it's going to work out in your favor, especially for people who continue to work in companies. So you can apply similar laws of demand and supply to evaluate even very different propositions, even different questions. So one question you could ask is why are software engineers getting paid more than say engineers working in civil engineering or mechanical engineering? So is that fair? So I'm not here to talk about fairness. I'm just trying to talk about demand and supply out here.

So there are lesser qualified software engineers in the market compared to core engineers. So again, the supply is lesser, the demand is also much more because one of the slides before we talked about the total number of jobs in India is around 2.5 lakh jobs being generated every year. Out of that, close to 220,000 jobs are in computer science and data analytics. So as a software engineer, there is clearly a lot more demand for you.

Supplies, qualified software engineer supplies less and demand is high. So wherever the demand is highest and the supply is least, that's where the highest compensation is. That's precisely what's happening in the software sector. You can also apply the same model in different ways. For example, if you are trying to evaluate product managers, typically you see that the average product manager is getting paid more than software engineers.

Why should that be the case? Again, the same reason. Trained product managers are very, very difficult to find. They are even more difficult to find than software engineers. So, clearly there is a lot more demand for them and also the supply of good trained product managers is very difficult. It is almost impossible to find a good qualified product manager.

So, again supply is less. So, as demand is more and supply is less, compensation tends to increase. Across many of the top schools, especially IITs in India, we see that the highest paying jobs typically are high frequency trading jobs. And these jobs tend to be in finance, quantitative trading and so on. And they pay the most compared to almost every other job out there in India. Sometimes I heard that students get paid between like \$300,000 to \$500,000 a year.

Why are they paying so much? Are the companies being silly? Are they being stupid? Actually, the reason is very clear if you understand demand and supply. What's happening is

there's an enormous demand for highly qualified students. traders, highly qualified quantitative engineers, huge demand because these people can make a huge impact to the companies they are in. The software they write can make sure that their trading happens much faster and if the trading happens faster you can rake in enormous profits. So each software engineer or trader can make a huge difference to the profits being made by companies.

So there's a lot of demand for them. And if you're looking at the supply in terms of the best of the best, there's just a very small number out here. So the companies that are looking for fantastic high-frequency trading jobs, they recruit from the best of the IITs, they recruit from the best of the Ivy League institutions. It's all because they want to keep the.

.. Demand high and also supply low. You want to make sure you get the best of the best and that's necessarily going to be much smaller than the average population. I've talked a lot about compensation because if you look at the loss of demand and supply, it always boils down to compensation. That's where economics typically work. But I think one of the problems with most of the economic theories and models is that they don't talk about the cons of their approach.

It's not always about compensation. There's a lot of other factors which are not factored in when it comes to talking about demand and supply curves. So what are some of those problems, right? This is not captured in the economic theories we've discussed so far. So the problems is that you can have tremendous work pressure when you work in companies. So what happens in companies is that, for example, I've talked to a couple of high frequency traders myself. They've reached out to me and I've had conversations where they tell me that they are expected to be working 24 hours a day, 365 days a year.

Because markets open up in different ends of the world at all. Like it can open up in New York at a certain time, in Bombay at a certain time, in Singapore at a certain time, in London at a certain time, right? So they have to be understanding what's happening throughout the day across the different time zones. So you have to be around. You cannot say that, hey, I slept. I did not see what was happening in the market.

That's impossible. You have to be awake all the time. So it's like... I mean, you can take naps, but you've got to be attentive all the time.

So it's like that's the problem with some of the high-frequency trading jobs. Some of the jobs like consulting, management consulting, like Bain, McKinsey, BCG, fantastic jobs, right, for people early on in career. But it also comes with its own cons, which is that you're going to be flying non-stop. If you're flying non-stop, you're eating at all sorts of places, your health may take a hit, your diet may take a hit.

So again, these are things to consider. It may not impact you much early on in career, but as you spend time, it will tend to rub you sore. Year-end evaluations are tough. Again, it's going to be a system where the best of the best are all located in the same location, working for the same company. So this means that even if you do a great job, it's not enough.

You have to do a better job than everyone else. And everyone is at the top of the game. Like in some of the high-frequency trading companies like Citadel and Jane Street, Almost 50% of the employees and 60% of the employees are like international mathematic gold medalists, right. All of them are the best of the best. They are from the top institutions from MIT, Stanford.

They are the toppers. They have done extremely well by winning like medals in them. Physics Olympiads and Mathematics Olympiads, many of them have PhDs from top schools. So when you are in that sort of place, you have to still do better than everyone else to get a good promotion, to get a good bonus. So year-end promotions can be very tough because it's not about how awesome you were or even if you made great profits, you have to beat everyone else. So there's a competitive streak which gets built in and that suits some people but not suit everyone else.

The moment your performance falls, you can be fired. That's the nature of these companies. They will not tolerate any sort of failure. You can't fail even once. You have to be a success continuously. So one day you have a bad day, something happens, you're out.

That's really the way things work. So there's no tolerance for failure. You always have got to be at the top of your A-game, and that's the fact of working in these companies. All these things, is it feasible to do this long term continuously in your life? I don't know. My friends tell me that it's not easy. And most people do drop out in their mid-30s saying that I'm done, let me move to a different lifestyle.

Even Indira Nooyi, let's pick up her as an example. Before she became CEO of PepsiCo, she was working in Booz Allen Hamilton. It's a consulting company. She rose to a very senior position. There are lots of people who worked in McKinsey as partners and principals and then who come to other big tech companies, work as a vice president, senior vice presidents and so on.

So people move from consulting, which happens all the time. It's very, very common in the consulting sector to move from high pressure consulting job to bit of a more laid back job in a traditional company. The reason is you don't find the right work-life balance. Okay, so we talked a little bit about the demand supply curves, but again, demand supply curves can also influence how you can choose your sector. So most of the companies who come recruiting at colleges across India, they typically fall into the space of either software engineering, data analytics, they're in consulting, finance, core engineering, and there's definitely a difference when it comes to compensation. So again, take it with a pinch of salt, Not everything is about compensation.

You've got to look at benefits, long-term growth and so on. But just by the demand supply curves, you can see that software engineers get paid the most compared to data analytics folks. And consulting and finance jobs tend to be very similar to each other. And then you have the core engineering jobs, which are pretty much less than all the other jobs. And this is about early in career compensation. You can get paid very differently when you're mid-career and at the end of your career.

The same demand supply curves influence location-wise compensation. For example, if you are in Mumbai and Bangalore, you can get paid a lot compared to, say, working in a place like Chennai or in Pune. And what's the reason, right? Because, again, you have a lot of tech companies in these places like Mumbai, Bangalore, Delhi, and CR. So many tech companies out there.

So what happens is there's a huge demand for good technical talent. And the number of qualified talent, the supply is also much lesser in these places. So, Mumbai for example is a

place where all the finance companies are, all the consulting companies are. So, there is a huge number of companies and they are not able to find enough people, right. So, the supply is low, demand is high.

So, Mumbai is probably at one end. Mumbai also has other reasons like it is landlocked, the limited accommodation and so on. So, typically it is very expensive to live in. Then you have places like Bangalore where there is a lot of IT companies which again drives up demand. Similarly in Delhi and CR. Hyderabad is a little better because again there are lots of companies but still it is affordable because it is a new city.

And likewise Chennai, Pune it is way more affordable than Mumbai and Bangalore. So, for example, if you were to get a compensation of say 10 lakhs in Mumbai and that 10 lakh compensation in Pune or in Chennai. Seriously, if you were to look at it, I would advise you to look at Chennai and Pune more seriously.

That's a good place to be. You'll probably do similar work. You'll also save more money. You'll pay back your college loans much faster. All that happens when you're at the right place. So do factor in that compensation depends on which location you are in. 10 lakhs in Mumbai doesn't go very far, but 10 lakhs in Chennai will go much further.

So that way, get a sense of what is it you want to do with your life, how you want to spend your life, because lifestyles are influenced by cost of living. And Mumbai, Delhi, cost of living can be way higher than other locations. So do factor that when you're looking at total numbers. So I'm going to change track a little bit, maybe give you a case study in terms of helping you understand How to compare offers in different locations? Because like I mentioned earlier, it's not always about the package given to you ultimately.

It's always not about the gross pay and it's also not about net pay. A lot of people love to talk about net pay saying that from the gross pay you take out the taxes and deductions and you're left with net pay. But that is also not a good indicator of what you have in hand at the end of the day. So, you need to look at a number called enhanced savings rate. The net savings is what you need to look at, not the net pay.

So, from net pay, you will also be spending on your rental expenses. So, you have to look at that factor. So, make sure the deduction happens and then you also going to be spending money as living expenses. So if you are in a place like Mumbai, even if you get paid 10 lakhs, you have to pay for your rental, you have got to pay for your living expenses and this can quickly eat into your overall savings. So ultimately if you are working in a company, if you are talking about compensation, don't look at the big number, the total compensation you get.

Ask yourself what is your net savings at the end of the day. You have to optimize for that as much as possible. So if your net saving is much more in smaller cities, maybe that's the right place to be instead of being in a big city. So those are some of the transactions you will have to make. So I'm going to end by saying that the biggest takeaway from the conversation so far is that, forget everything I've said so far about economics, but what you have to remember is every job has a demand-supply curve.

You have to be in a job where there's the highest demand and least supply. That's really where you want to gravitate towards. job offers differ all the time based on locations, functions, sector and role and you want to make sure that you come to the right optimal mix for yourself based

on what you want to optimize. In the long term, it is not really about what background you have, what is your pedigree, which college you graduated from. It's all about like what value can you add to the table, right? That's most important.

Again, like I said, always focus on skills, never about compensation. I think the more you focus on skills, compensation will follow. But the moment you focus only on salary and forget about skills, now that's a very dangerous path to enter. Okay folks, so I near the end of my conversation, but I would also maybe offer some additional thoughts in terms of how to upskill. This is a place where I have a lot of students ask me questions. I would say that volunteer, intern as much as possible to get a break because like everything is about skills, but then how do you gain skills as a student, right? That's your question.

So, volunteer, intern, and that's a great way to get solid experience. And you need not even be in very big companies or well-known companies. Even small companies will give you these opportunities. So, make sure that you sign up for that.

You can take up courses on Udemy. You can pick up courses on Coursera, YouTube. There's a lot of free courses available. You don't need to pay for much of these courses. So again, those are great ways to build skills. A lot of startups like it if you just volunteer and say, I'm ready to work for you.

They absolutely love it. So that's something you could consider. entrepreneurship, freelancing, sometimes just going to a startup founder and saying, hey, I am very passionate about this company, I want to work for you, if you just volunteer, they will be happy to give you good work. And the more good work you do, the more skills you can develop and that you can put on your resume, it will make you stand out. So target startups, I think that is something which not many students do. Do not always expect to get paid because sometimes you have to demonstrate value before you get paid and if you keep that in mind, you should be in a very good spot. Okay folks, so we come to the end of our conversation for today. Until next time, bye.