

Minimum wage and demand for labor

Business



Introduction There are common assumptions made on minimum wage aspect. Thus, low- wage workers work as a group and usually benefit from an increase of their total wage income. When their minimum wage rate is set, these workers are regarded because an aggregate demand for a low wage worker results into a unitary elasticity. An increase in the minimum wage rate, in case aggregate demand for labor remains inelastic, leaves workers better off.

Therefore, this brings in a close connection between the inelasticity of demand for a low wage labor and the minimum wage rate (Meulders & Plasman 2004). In the process of analyzing the minimum wage level, it is necessary to note the following: motivation for most empirical studies of demand for low wage labor has some attributes to desire of evaluating the efficacy of a legislated minimum wage in order to skirmish against poverty. In a downward sloping curve for labor, there is an evidence of minimum wage legislation that raises the workers' wages high above the competitive level, and this move transparently leads to job losses for some workers in the job environment. It is also beneficial to note that the standard analysis brings in the assumption that the income from workers will be reduced to zero. In this sense, leisure will be valueless.

In a real situation, however, workers are in the process likely to collect their unemployment benefits or secure themselves a low paying job in the sectors where they are not covered at all. As a result, they have value for leisure activities. According to Sobel (1999), one of the key determinants of the minimum wage for policy makers is to set the value at a point where labor demand is unitary elastic. This serves to maximize the earnings of a worker

who is affected by the minimum wage. The question that rises from this fact is whether the minimum wage rate has achieved its objective of raising income of low wage worker or not (Lal 1995).

What is clear is that it all depends on the elasticity of the demand curve in all covered sectors depending on whether the demand is inelastic or elastic.

Many people associate unemployment only with negative issues. Although, it may also be positive. There is also an assumption made by the standard analysis, which assumes that workers are only concerned with their expected wage income (income at minimum wage rate multiplied by the employment probability) making them free from any risk. In fact, workers are likely to be risk reluctant hence affected by the vagueness attributed to whether they are to earn a minimum wage rate or deal with the income-equivalent wage rate.

What is noteworthy, to analyze how equivalent wage rate and an aversion in risk affect the range of labor demand and elasticity. This increases the benefits that arise from the poor people in the job market. When considering the minimum wage, inelastic demand for labour is relatively more beneficial for workers. In the same case, labor demand will remain elastic compared to a critical value, and the condition of workers worsens if labor demand is more elastic in comparison to the critical value (Fields 1994). It is also crucial to note that critical value on the elasticity of demand goes down in respect with the income-equivalent wage as it averts with the workers risk repugnance.

There are two reasons that force the demand for labor to incline negatively in all types of production. Firstly, whenever the wage rate shoots up, it leads

to a business production cost increase. This forces them to increase their selling prices, and as the price increases consumers are forced to buy less leading to a low output. Therefore, the business will require less labor overall. Secondly, it is clear that whenever the wages rise, labor becomes expensive, and businesses will instead proxy capital for labor. This again implies that less labor will be used by the business based on whatever the business in the industry sells.

Finally, there exists no sign of optimal minimum wage rate, or it may as well not be unique. A low wage, unregulated, labour market has some benefits. Under the assumption that an artificial rate is set above the market clearing rate, employment may be reduced. Each worker in the group has an equal chance of finding employment, in such a case a worker's probable efficacy results into a negative elasticity of the labor demand with respect to the elasticity of the efficacy achieved from the employment cases at a minimum wage rate. It is noteworthy that the rises in the minimum wage rate of a worker are added to the sum of all elasticity. There are times when the income-equivalent wage rate for employed workers drops to zero, leaving the workers at risk.

What follows is that the critical value reads minus unity. The reason behind this is that workers expected utility is maximized at a minimum wage rate where the demand for labor remains unitary elastic. Therefore, it is clear that workers will lip the benefits of a rise in the minimum wage rate in the sense the labor demand is elastic. Workers may be risk averse when the income-equivalent wage rate may be positive for all unemployed workers. The

Income-Equivalent Wage Rate In reference to the unemployed income wage rate, there are signs of positive impacts.

The reason behind this fact is that when this rate is high it results into a utility gain reduction for those employed at a minimum wage rate. Therefore, workers are willing to accept unfavorable employment cost resulting from a higher minimum wage rate than the past. In other words, the expected utility when workers are risk neutral not only increases with the minimum wage rate in a situation where the labor demand is inelastic, but increases with the minimum wage rate if the labor demand has unitary elasticity. It is clear that a hike in the minimum wage rate can lip benefits to the workers even if the labor demand is remarkably elastic. Risk Aversion In this case, an increase in the workers utility function will result into strictly concave transformation. The distinction between risk aversion and income equivalent-wage rate is that risk aversion equation is the opposite of the other for the unemployed population.

This would result into a negative impact on the utility function leading to a positive critical value. The logic behind risk aversion is that workers are the greatest concern whereby they will be at a risk of not being to be employed at the minimum wage rate (Kogan 2001). As people remain reluctant, it will lead into negative unemployment consequences of a high minimum wage rate. Consequently, if the more risk adverse workers are the larger the elasticity will be for the workers on the case of making them better through an increase in the minimum wage rate. Thus, the critical value elasticity increases with respect to the workers risk aversion and to benefit the workers the labor demand must sufficiently be inelastic.

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The Optimal Minimum Wage Rate There exists an optimal wage rate that satisfies the elasticity equation resulting into zero. Equivalently, elasticity of a labor demand leads to satisfaction because the equation remains at equilibrium, and in that case existence of an optimal minimum wage rate may exist unless otherwise (Lee 2008). For example, if the income equivalent minimum wage rate is zero and the utility function shows a constant relative risk aversion that is less than unitary optimal minimum wage rate will exist. On the other hand if the labor demand is given by the by $L(m) = m^{-\eta}$, where $\eta > 0$, then $e_L = -\eta$. Accordingly, if $\eta > 1$ –S an increase in the minimum wage level will benefit the workers and there is no existence of an optimal minimum wage rate.

In case of ?

This report tries to show how the critical value decreases with respect to workers income-equivalent wage rate increases with the risk aversion. It is also clear from the report that there is no existence of an optimal minimum wage rate, and if it exists, it will not be unique.