

Demand and supply ,
examine the
argument in favour
and against minimum
wage law i...



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* BUSINESS DECISION ANALYSIS* * London* *School*of Accountancy &

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ST0005944) Masters of Business Administration Assignment: A * (Using

Demand & Supply: examine the arguments in favour & against minimum

wage law in UK*) * *Total words: 1, 402 Demand It refers to the willingness

and ability of buyers to purchase goods and services at different prices.

Supply It refers to the willingness and ability of sellers to provide goods and

services for sale at different prices What* *is minimum wage? A minimum

wage is the lowest monthly, daily or hourly that employers may legally pay

to their employees or workers. Or in other words, it can be explained as the

lowest wage at which workers may sell their labour. What is minimum wage

law in U. K? A National Minimum Wage (NMW) was introduced for the first

time by the Labour government of UK on 1 April 1999, and it's been

practiced hence fore. The current minimum wage of UK* as per October

2009 Demand curve of labour: It is assumed that the higher the wage, the

fewer hours an employer will demand of an employee. This is because, as

the wage rate rises, it becomes more expensive for firms to hire workers and

so firms hire fewer workers. The demand of labour curve is therefore shown

as a line moving down and to the right. {draw: frame} Supply curve of

labour: It is assumed that workers are to ready labour for more hours if

wages are high.

Graphical economic representation of this relationship is plotted as the wage

on the vertical axis and the quantity (hours) of labour supplied on the

horizontal axis. Since increase in wages, increase the quantity supplied, the

supply of labour curve is upward sloping, and is shown as a line moving up

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and to the right. {draw: frame} Effect of Minimum wage law on demand & supply: {draw: frame} Nearly all introductory textbooks on study of economics, it states, increasing the minimum wage decreases the employment of minimum-wage workers.

More such textbook says: " If a higher minimum wage increases the wage rates of unskilled employees above the level that would be established by market forces, the quantity of employment for unskilled workers will fall. The minimum wage will price the services of the lowest productive (and therefore lowest-wage) workers out of the market. ... The direct results of minimum wage are clearly mixed. Some workers, mostly those whose previous wages were closest to the minimum, will enjoy higher wages. Other, particularly those with the lowest wage rates, will be unable to find work.

They will be pushed into the ranks of the unemployed. If there is rise in the level of minimum wage, then there is rise in level of unemployment, because if the minimum wage is increased the demand for labour falls as it is less profitable for the firms to employ as many people. It is assumed that higher the wages, the fewer hours an employer will demand of an employee, as the wage rate rises, it becomes more expensive for firm to hire workers and so firms hire fewer workers. The demand of labour curve is therefore shown as a line moving down and to the right.

While merging the demand and supply curves of labour, we can examine the effect of minimum wage. Assuming that supply and demand curves for labour will not change as a result of raising the minimum wage. If no minimum wage is in the place, workers and employers will continue to adjust

the quantity of labour supplied according to price until the quantity labour demanded is equal to the quantity of labour supplied, i. e. reaching Equilibrium price, where demand and supply curves intersect. As shown in above graph. Arguments in Favour of Minimum wage law:

Motivates and encourages employee to work more efficiently. By increasing incomes for the lowest-paid workers, the cost of government social welfare decreases. Stimulates consumption of low-income people by putting more money in their hands that spend their entire pay checks. Does not have a substantial effect on unemployment compared to most other economic factors and so it does not put any extra pressure on welfare systems.

According to Historical evidence it is noticed at current levels, that it neither hurts businesses nor reduces job creation. A study of U. K. states showed that businesses' average and annual payrolls grow faster and employment grew at a faster rate in UK with a minimum wage imposed, the study showed a correlation, but did not prove causation to claim. Increases the work ethic for those who earn very little, as employers demand more return from the higher cost of hiring these workers. Arguments in Against the Minimum wage law: Discourages further education among the poor by encourage people to enter the job market. The National Minimum Wage had a negative impact on the staffing levels within our retail stores.

The stores are operating for fewer hours as compared to they were several years ago in order to absorb the impact of the strong increases. Businesses spend fewer amounts on training their employees. Reduces profit margins of business owners as employing minimum wage workers, thus it encouraged to move to businesses that do not employ low-skill workers. Businesses try to <https://assignbuster.com/demand-supply-examine-the-argument-in-favour-against-minimum-wage-law-in-uk-assignment/>

compensate their effects by raising the prices of the goods being sold thus it caused inflation and increasing the costs of goods and services produced.

Does not improve the situation of those who suffer from poverty, it benefited some at the expense of the poorest and least productive. It gave a limitation on the freedom of both employers and employees, and can result in the exclusion of certain groups from the labour force. As a labour market is parallel of political-economic protectionism, it excludes low cost competitors from labour markets, hampers firms in reducing wage costs during trade downturns, and generates various industrial-economic inefficiencies as well as unemployment, poverty, and price rises, and generally impairment of functions.

Reduction in quantity demanded of workers, either through reduces in the number of hours worked by individuals, or through reduces in the number of jobs. A NMW set above the free-market wage for certain groups raises the marginal cost of employing people - so firms will cut jobs, reduce hours of work for employees and unemployment will rise. Other workers will demand higher wages to maintain pay differentials (this is known as " pay leap-forging").

An increase in the total wage bill may cause cost-push inflation and damage the price competitiveness of UK producers in international markets. Young and low-skilled workers will lose out - firms will tend to employ older workers whose experience is greater. There will be a substitution effect of works against younger participants in the labour market. A minimum wage will not

ease poverty because many poor households do not have a income earner.

Poverty is concentrated in those groups where no one is in paid employment.

A minimum wage has little direct effect on these households - better to introduce a minimum income guarantee. A NMW does not take into account regional differences in cost of living and will have a effect of distortion on the way the UK labour market works. Effects of minimum wage law: Effects on the distribution of wages and earnings among low-paid and higher-paid workers. Effects on the distribution of incomes among high-income and low-income families. Effects on the skills of workers through job trainings and the deferring work to acquire education.

Effects on profits and prices. Employment effects, the most frequently studied aspect Conclusion Since the introduction of a national minimum wage in the UK in 1999, its effects on employment were subject to extensive research and observation by the Low Pay Commission. The Low Pay Commission found that, rather than make employees redundant, employers have reduced their rate of hiring, reduced staff hours, increased prices, and have found ways to cause current workers to be more productive (especially service companies).

Neither trade unions nor employer organizations contest the minimum wage, although the latter had especially done so heavily until 1999. References:

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