The impacts of minimum wages policy economics essay

Based on the diagram above, the quantity supply of local labor before setting minimum wage (P1) is at Q1. After setting minimum wage (P2), the quantity supply of local labor increases to Q2. The quantity supply of total labor before setting minimum wage (P1) is at Q4. After setting minimum wage (P2), the quantity demand decreases to Q3. Owing to the reason that setting minimum wage, shortages of local labor at JKL arises at the minimum wage of P2 and surplus of foreign labor at EKM arises at the minimum wage of P2.

The setting of minimum wages will increase the unemployment rate because employers will look to hire more specialized employees or fewer employees to maintain healthy margins (Chotin, Finch, Eaton, Engham, Goldblatt, 2009). An example of unemployment from indexing would be Washington. Washington's teen unemployment in 1999 was 19. 7% and as indexing was applied its teen unemployment increased to 29. 7% in year 2008 (Chotin, Finch, Eaton, Engham, Goldblatt, 2009). The following graph illustrates the growth in teen unemployment rates in Washington (Chotin, Finch, Eaton, Engham, Goldblatt, 2009). It used to compare with the unemployment rates of the rest of United States.

This graph shows that when minimum wage rises companies hire fewer employees to work. For retailers, this means fewer employees on the floor selling, maintaining inventory and helping customers to find products. For example, stores which focus on customer service will not be able to make such sweeping employee cutbacks (Chotin, Finch, Eaton, Engham, Goldblatt, 2009). Market Basket, a grocery store food chain based out of Massachussetts is an example of a store focusing on customer satisfaction, which faces issue on raising minimum wages. Market Basket hires many young teens to keep the floor full of employees to help the customers as much as possible. They also try to make sure the store clean, presentable and answer customers' questions. Thus, when setting minimum wage, it will forces Market Basket and other services focuses retailers cut backs in other areas (Chotin, Finch, Eaton, Engham, Goldblatt, 2009).

Besides that, if the government setting minimum wages policy, it will affect the productivity and efficiency of employers or producers (Chua, 2008). When there is minimum wage policy, the producers will seek alternative way to reduce the number of employees such as trade in new machine and new technological in order to save the cost of production in long-term basis. For example, there are two equally productive workers assigned to clear a wooded lot. The first worker is given a shovel and an axe, the second, bulldozer. Thus, the second worker is more productive compare with first worker because hard work cannot compete with better technology (Matthew B. Kibbe, 1998).

In addition, minimum wages policy causes inflation in the country. When the government set higher minimum wages policy, the producers are unable to cope with costs of production. It will cause the prices of all products to increase tremendously. Thus, the population, especially the low income class, would find it more difficult to stay in the high living expenditure society. Based on the economist, this known as cost-push inflation (Michael Pollick, 2010). An increase in the federal minimum wage will increase the costs of production, which subsequently results in an inflated price for consumers.

Employers prefer to hire foreigners because they are charge lower wages and are more willing to work extra hours (Loh, 2009). In year 2008, foreign non-residents individuals account for 1. 2 million people of the entire population and with the assumption that foreign labor from Singapore is not foreign talent. Thus, if the country sets the minimum wages policy, it will reduce dependency on foreign labor because Malaysians will be granted priority in job placement compared to foreign workers (Chua, 2008).

As a result, the minimum wage policy would bring advantages and disadvantages to Malaysia and her population. To reduce the effect of the disadvantages of minimum wage, the Malaysian government needs to work out the most effective way on reducing the disadvantages of minimum wage policy so that government and population can gain as much as benefits as hoped. The government would have to look into the details pertaining to the shortcomings of the minimum wage policy such as the possibility of increase in foreign labour instead of local labours and consider other possible problems that could arise.

Question 2

2. 1 Introduction

Gross Domestic Product (GDP) is defined as the total market value of a country’s output. It is the market value of all final goods and services produced within a given period of time by factors of production located within a country (Case & Fair, 2002). The production of a given value of goods and services would generate an equal value of income. Therefore, the necessary equality between the GDP and gross domestic income indicates that the GDP can be measured both as the total value of output produced and as the income generated in producing that output (Tregarthen, 1996). Therefore, in the following essay, GDP per capita is used as a measure of economic growth and living standards of a country over a period of time.

2. 2 Measuring Economic Output Performance

A country's economic output performance is currently measured using the GDP of the country. A method practiced by almost all countries presently. The GDP is a widely used and accepted method of economic measurement in many countries. It is updated frequently and monitored by specific national statistical bodies to ensure the best accuracy of the economic measurement (Madsen, 2006). GDP enables the country planners and economic planners to monitor the economic trend of the country in a regular, periodic basis.

Despite the standardized GDP, there are many limitations to this concept. One of these limitations is GDP per capita fails to include non-marketed output and household production. GDP per capita does not include the value of the effort and time put into providing household goods and services (Tregarthen, 1996). For example, a family repainted their house by themselves without using the services of a skilled painter. Their time and effort was not included in the calculation of the GDP. However, if the family uses the service of a skilled painter to repaint their house, the value would be added into the GDP. These would show in the GDP. However, it does not reflect the actual increase in production. It may reflect a shift in production from a category that is not included in the GDP (eg. household production) to another category that is included.

GDP also fails to include environmental degradation (Waterson, 2010). An increasing income and growth of a country could be occuring at the expense of the environment. Fast developing countries run a risk of causing negative externalities to the environment. The manufacturing sector could be contributing a lot to the nation's GDP, however, the sector could also be the major contributor to the air pollution in the area due to the smoke released. The polluted air can cause breathing problems and diseases among the neighbouring societies.

Furthermore, income derived from the black market and volunteer work is not accounted for in the GDP (Madsen, Dec 2006). In the case of the black market, there are no reports of production to the government to evade tax and the law. For example, the underground activities, like prostitution, human trafficking, and drug trafficking, are very lucrative. However, they are not reported because of the law. In the case of volunteer work and charitable organizations, they do not earn income in the first place. Therefore, it is not reported in the GDP despite the output generated.

2. 3 Measuring Rising Standard of Living

The most common measure of standard of living is the use of real GDP per capita (Federal Reserve Bank of Boston, 2003). Real GDP per capita is the inflation-adjusted GDP per capita. Assuming other aspects remain equal, a sustained increase in real GDP would increase the country's standard of living provided the output increases at a faster rate compared to the total population (Riley, 2006).

The advantage of using real GDP per capita is that the country planners and economy planners are able to develop economic policies and development plans since the trend in the GDP per capita at a specific period would reflect the living standards of the population (Madsen, 2006). Therefore, relating to the newspaper article in the question, the Prime Minister of Malaysia, Datuk Seri Najib Tun Razak, had revealed the New Economic Model 2010 because the government believes that the living standards of Malaysians can be further improved.

However, there are limitations to the usage of real GDP per capita as a measure of living standards. The failure to consider the distribution of income is one of its shortcomings. Because real GDP per capita (per capita income) is an indicator of the average living standard of individual members of the population, it cannot project the actual living standards of the population (Madsen, 2006). Income of the population varies according to the geographical region (Hillstrom, n. d.). Part of the population may be getting their income from the manufacturing industry whereas another part could be earning their income from the tourism sector.

Per capita income also varies greatly through out the world. According to Susan Dentzer in U. S. News and World Report, in 1988 the top 20 percent of countries worldwide (based on annual national income) reported per capita income figures an average of 65 times greater than the bottom 20 percent of countries. As of the last quarter of 2009, Malaysia’s per capita income (Gross National Income per capita) figure stands at RM25, 201 (Department of Statistics Malaysia, 2010).

The real GDP also does not take into account the leisure time . All other variables equal, more leisure time is better than less leisure time (Tregarthen, 1996). Consuming leisure would mean that less work effort would be supplied which means producing less GDP. For example, if the government imposes a maximum 5 office and working hours per day, the labour effort in the country would reduce significantly causing the GDP to fall. However, this does not mean that the population is worse off compared to the previous period. According to Tregarthen, the population would end up consuming more goods and services because of the extra leisure time. This situation implies that the fall in GDP would be accompanied by the increase in utility.

2. 4 Conclusion

As a conclusion, our team agrees that economic output performance and rising standards of living can be measure using per capita income. In our opinion, it is a safer and more prudent measure to understate a country's economy growth than overstate it. Despite all the shortcomings of the GDP, GDP does measure the production of goods and services which are main focuses of economic output performance (Tregarthen, 1996). Until a more comprehensive and better model is introduced, the GDP concept still holds. In the case of living standards, on the other hand, real GDP per capita can be supported by other alternative indicators which are the Genuine Progress Indicator (GPI), the Human Development Index (HDI) and the Index of Social Health.