Labor economics

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The employment effects of a minimum wage increase While research shows that increasing the minimum wage does not reduce employment, it challenges the traditional theory of the effect of minimum wage on individual employment and the economy. The estimated employment effect of the U. S. federal minimum wage increase ranges from small and positive to moderately negative. The positive impact is that employee disposable income rises with increase in the minimum wage. Individuals have more money to spend, thus leading to an increase in demand for goods formerly unaffordable. The employment effect is likely to be more negative at a higher value of the minimum wage because in a perfectly competitive economy it reduces the number of employees (Murphy, n. p.). Employers would want to reduce costs and maximize profits. Therefore, employers will increase the minimum wage and decrease the number of employees to maintain their profitability.

Various factors determine the size of the effect of an increase in the minimum wage on employment in perfect competition. First is nonmonetary compensation/ incentives, where employers reduce fringe benefits and increase the minimum wage without incurring additional costs. Second is the increased cost of a product. In the model economy, a corporation that increases its minimum wage reacts slowly to a corresponding rise in the price of its product than its competition in the industry (Card & Kruger, 792). The buyer has the ability to purchase a good at a lower price in a competitive market because he/ she can affect its price. Collusive behavior among buyers that influences the elasticity of the supply curve gives buyers monopsony power. The minimum wage increase might have a positive effect on employment if firms have significant monopsony power (Mangunsong, n. p.).

This paper relies on studies such as the analysis of 410 fast food restaurants in Pennsylvania and New Jersey, which increased the minimum wage to $ 5. 05 from $ 4. 25. The study shows reduced employment in each state for companies that were paying the minimum wage of $4. 25. The effect was insignificant for those that had their minimum wage at $5. 05 (Card & Kruger, 792). However, it is hard to standardized results, since employers face supply limitations in both monopsony and equilibrium models.

The range of estimates produced by studies may be invalid due partly to differences in working hours for part- time and full-time employees. Individual skills and in-house job training also affect the results of increasing minimum wages since it affects employee efficiency, which in turn affects the company's quality of service and its profitability. Another factor is changing the cost of the product to consumers (employees make up consumers) its increase may be due to the rising cost of production or to absorb the cost of higher wages.

Even if a higher minimum wage resulted in lower employment, two-earner families may be better off with a higher minimum wage even when one or both earners works less. In response to reducing employment levels in favor of higher minimum wages, the labor pool for large corporations whose salaries are above the minimum wage expands. The expansion results from income/substitution effects of a wage increase on the labor supply decision of the family to forego higher wages for fringe benefits like discounts and fewer working hours. (Murphy, n. p.).

Works Cited

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