

Economic theory in the real world case study examples

[Literature](#), [Russian Literature](#)



The media report presents the effects that the policy that the Australian government has taken. According to the media, the government has raised the minimum wage payment to the workers to \$15 per hour.

Highlight the reason for the issue being raised

There are several reasons for this move. In the first place, the standards of living have been increasing over years whereas the wages of the employees have remained fixed. The increasing price of goods and services in the economy is the reason for the increased standards of living of the people. The other reason for the move is the increased productivity of the workers. According to the government, the productivity of the workers has increased by 20% whereas the wages have increased by less than 3 %. This is very unfair and the best strategy of reducing unfairness is through increasing the minimum wages of the employees (ABC news, 2010).

The move by the government is expected to have several impacts to the economy. In the first place, the unemployment rates in the economy are expected to rise. Considering that employees usually seek to minimize costs, it is expected that the employers will have to reduce the number of employees to reduce the production costs in the economy. New people will now enter the job market seeking for new jobs considering that their reservation wage has now increased. In that case, the unemployment will be facilitated by this (Ben, 2010).

The move is expected to improve the living standards of the employees. They are now able to buy goods of their choice. The results are that the aggregate demand for goods and services in the economy will increase. This has the

effect of increasing investment to meet demand. The increased output in the economy will facilitate economic development. However, the increased demand in the economy will make the prices in the economy to rise. An increase in price will lead to inflation in the economy, which will further increase the costs of living (Evin, 2010).

Who are the key stakeholders that are impacted by the issue outlined in the report?

The pay rise will affect several groups in the economy. The employers will be affected negatively in that the costs of operating their businesses will increase hence reducing the profits of their businesses. However, the effect on them will not be much considering that the pay rise has been due to the increased productivity of the workers. However, in organizations where the employee productivity has never increased, the employers will be greatly affected (Ben, 2010).

Unemployed people will be affected also considering that, less number of employers will now demand less workers. The chances of the unemployed people getting new jobs will reduce significantly (Evin, 2010).

The effect of the policy to the government is positive because it will now be able to collect more taxes from the employees. On the other hand, the employees are affected positively considering that their choice has improved with the increased salary hence improved living standards. Other groups impacted include Fair Work Australia, Australia Chamber of commerce and industry and Australian council of trade unions.

Highlight what you believe the main impacts will be and outline who you believe will be impacted most.

The people greatly affected are the employers considering that their costs will be affected greatly hence affecting the total profits of the business. This will affect the investment decisions of the businesses, which may in turn affect the expansion of the businesses (ABC news, 2010).

What economic theories can be drawn from this media report?

The articles have applied several economic models. Economists prefer using the competitive model to explain the effect of increased minimum wages in the economy. According to the competitive model, the wages in the economy should be dictated by the forces of demand and supply. The interference in the economy by the government affects the functioning of the free market economy. In the above diagram, if the forces of demand and supply were allowed to determine the equilibrium employment in the market, E_c would be the quantity of workers employed in the economy at a wage rate W_c . However, government intervention increases wages to W_m . This has the effect of increasing the labour supply to C. However, the labour demand in the economy reduces to A due to increased costs of the firm. The final employment in the economy reduces to E_m . The competitive theory was developed on the basis of the neoclassical economists who argued that an increase in the minimum wages in an economy has the effects of reducing unemployment in the economy.

Another economic theory argues that an increase in minimum wage has an effect of increasing the costs of production of business organizations. The

effects are that the production in the businesses reduces. Reduction in output reduces the supply in the market. The graph below shows a shift in supply due to reduced supply in the market.

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The effects of the shift is that the price of goods and services in the economy increase. This economic theory helps explain the reason for the inflation in the economy following an increase in the minimum wages in an economy. According to the theory, the argument is that increased wages to employees makes the skilled labour to join the labor market. The employees end up hiring more of the skilled labour while the semiskilled and unskilled laborers lose their jobs. The overall effects are that the unemployment in the economy rises and the people mostly affected are the unskilled and semiskilled laborers (Lin, 2009).

According to the articles, the minimum wage will lead to inflation in the economy. This is in line with economic theory that argues that an increase in wage of employees facilitates an increase in the aggregate demand in the economy. An increase in demand in the economy leads to a shift in the demand curve as shown below (Neumark, 2008).

Are there any other issues in the article that you believe to be relevant?

The articles have also discussed some important facts about the decision. Workers are supposed to be paid a wage that is equal to the value of their marginal productivity. Considering that there has been an increase in productivity of the workers, it means that the employees were not previously

being paid a wage equal to the value of their marginal product. In that case, the negative effects of the increased minimum wage may not be felt. This is as the government tries to argue. However, there is no proving that the marginal productivity actually increased over the years. The effects of the policy cannot therefore be clearly stated (Neumark, 2008).

It is also important to highlight that the reduction in unemployment may take the form of reduced labour hours in the economy. In order to pay fewer wages, employees may prefer hiring workers for some hours to save costs.

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