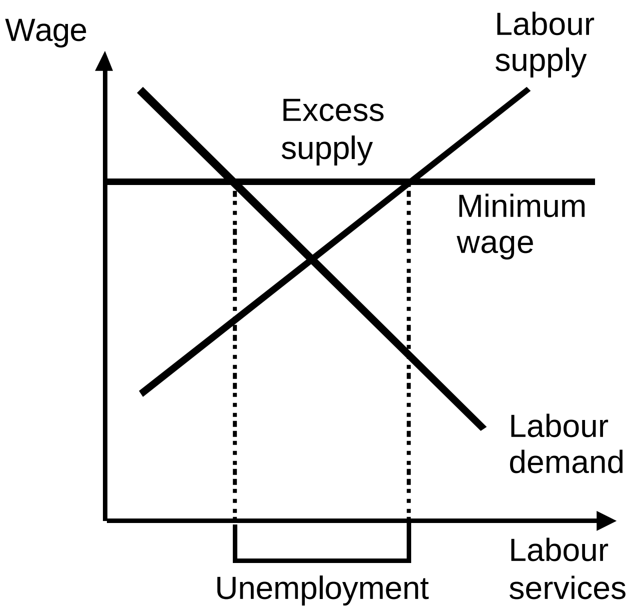
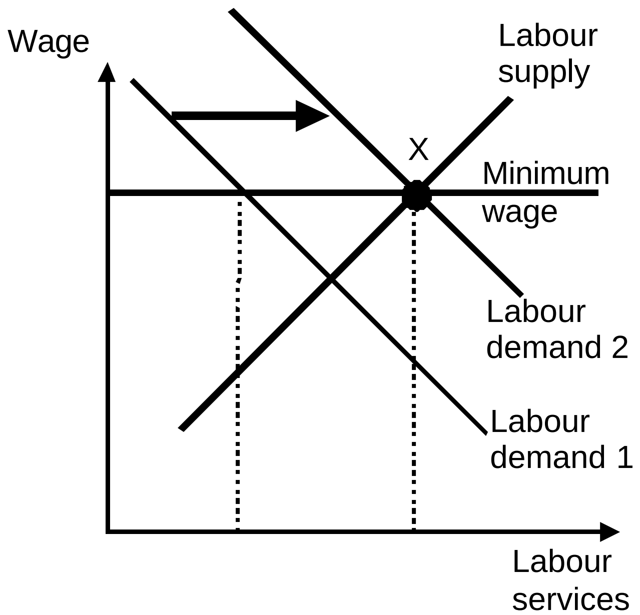
Minimum Wage

1 A minimum wage can cause **unemployment**:



2 If the **labour demand** curve is **shifting** outwards, unemployment can possibly be avoided, either partially or totally.

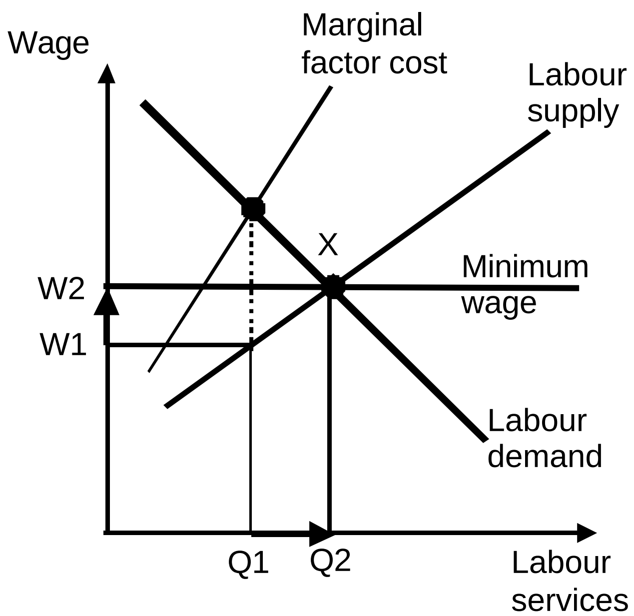


- At X, there is no unemployment at all (labour quantity supplied = labour quantity demanded).

- Possible chain of arguments (used in the segmented labour market model):

  Higher wages → innovation in technology → more modern and efficient equipment → higher productivity → higher demand for labour

3 If the employer is a **monopsonist**, unemployment can possibly be avoided, either partially or totally.



- A monopsonist is the only buyer of labour services.
- The monopsist faces marginal factor costs that lie above the average factor costs (= labour supply) because he has to offer higher wages to **all** employees if he wants to hire more workers.
- The monopsist chooses the quantity of labour services at the point where marginal factor costs = marginal benefits (→ labour demand). But he has only to pay W1 to get Q1.
- At point X, Q2 is supplied and demanded which is higher than Q1. This increase has happened after establishing a minimum wage of W2 by the government.
- **Result in our case:** When imposing a minimum wage, more labour services are bought than before. No unemployment is observed because at the new equilibrium X the quantity demanded is equal to the quantity supplied.