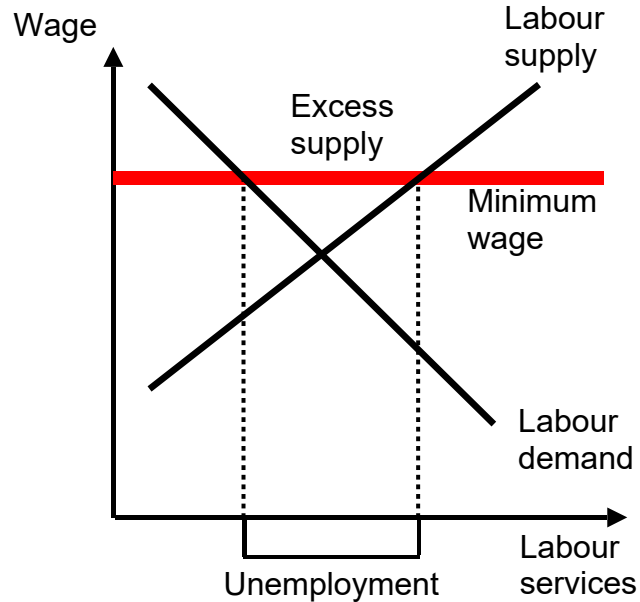
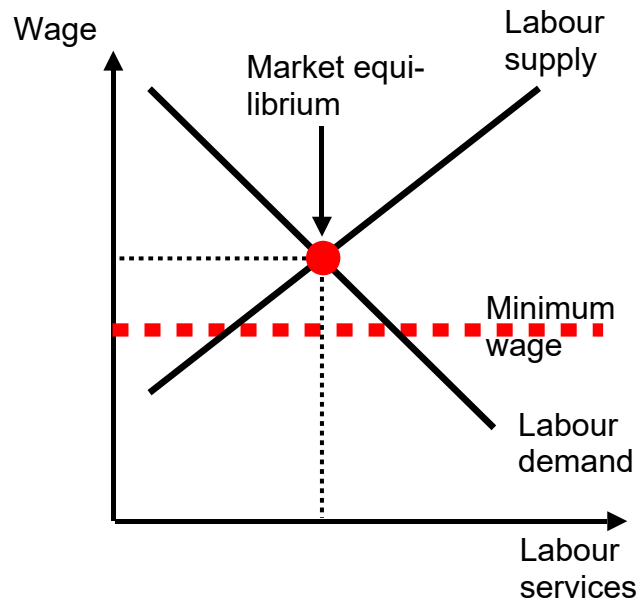


# Minimum Wage

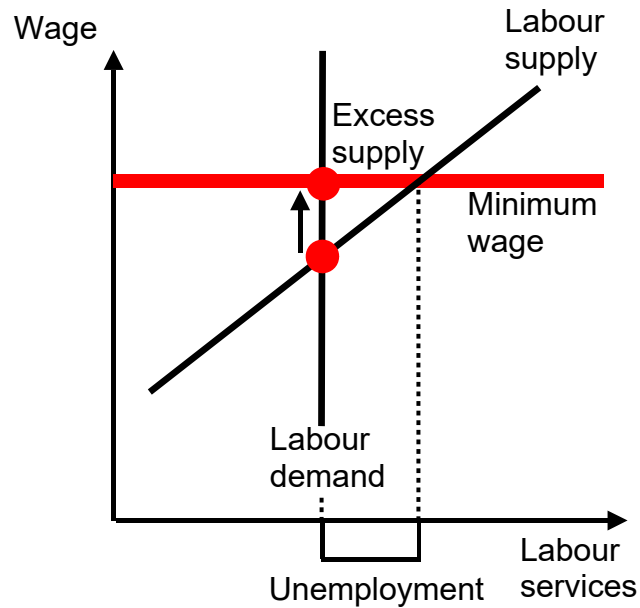
## 1 A minimum wage can cause unemployment:



## 2 There is no unemployment if the market wage is higher than the minimum wage. In this case, the minimum wage is ineffective.

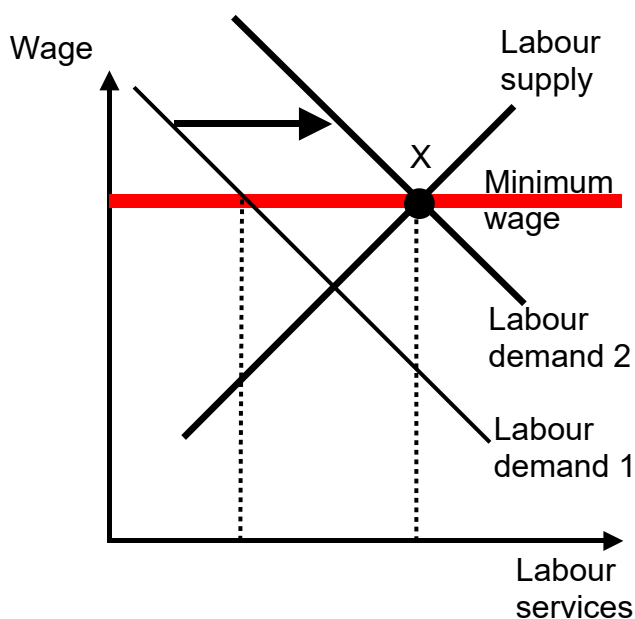


### 3 An inelastic labour demand leads to lower unemployment (compared to 1).



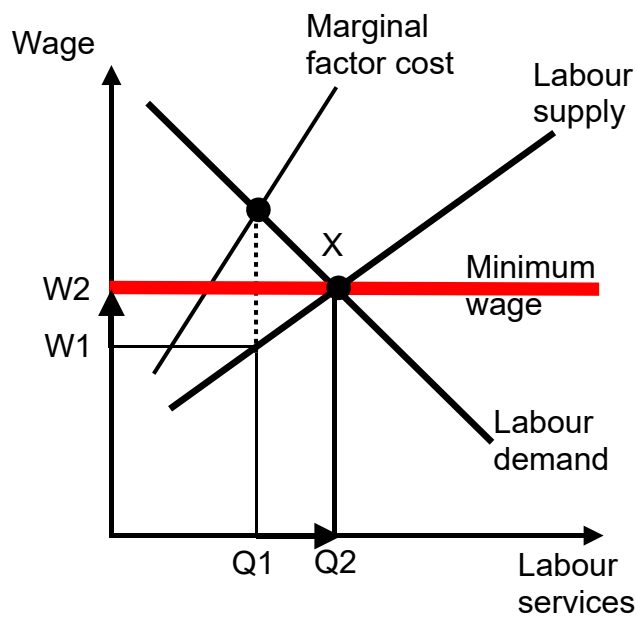
Comment:  
If the elasticity of labour demand is 0, the number of workers remains constant, albeit with unemployment.

### 4 If the labour demand curve shifts 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

## 5 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 monopsonist 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 monopsonist chooses the quantity of labour services at the point where marginal factor costs = marginal benefits ( $\rightarrow$  labour demand). But he has only to pay  $W_1$  to get  $Q_1$ .
- At point X,  $Q_2$  is supplied and demanded which is higher than  $Q_1$ . This increase has happened after establishing a minimum wage of  $W_2$  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.