AQA Economics A-level

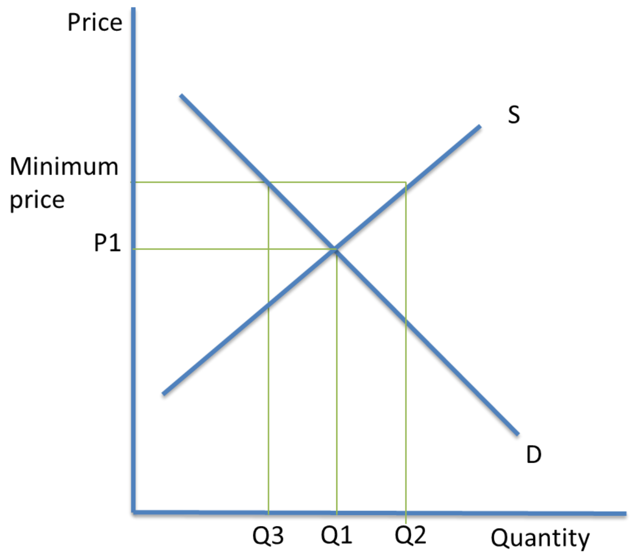
Microeconomics

Topic 6: The Labour Market

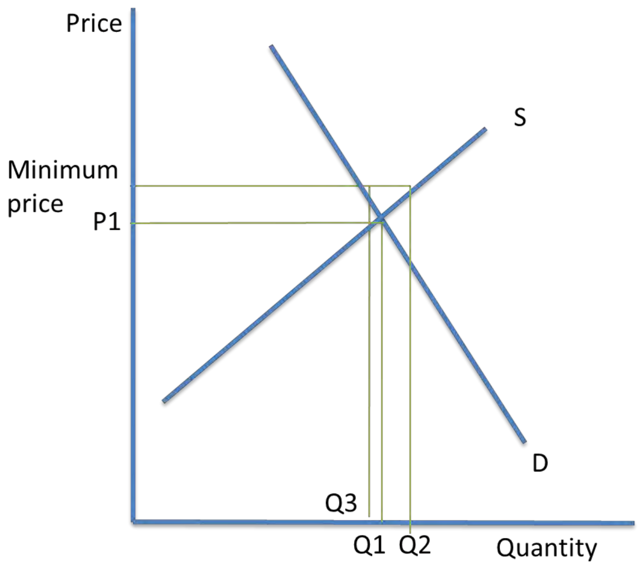
6.6 The national minimum wage

Notes

- The **National Minimum Wage** is an example of a minimum price.
- The minimum wage **has to be set above the free market price,** just like other minimum prices, otherwise it would be ineffective.



- The diagram above suggests that a minimum wage leads to a fall in the employment rate (Q1 – Q3). It depends on what level the wage is set at. An inelastic labour demand (diagram below) will mean there is only a small contraction in demand for labour (Q1 – Q3).



- There has been no evidence of a rise in unemployment with a rise in the NMW so far in the UK. Some firms say this is because the NMW is still relatively low.

- The NMW will yield the positive externalities of a decent wage, which will increase the standard of living of the poorest, and provide an incentive for people to work.
- It could make it harder for young people to find a job, because their lack of experience might not be valuable to firms who are paying more for their labour.
- The government might make more tax revenue, due to more people earning higher wages.
- A higher wage could make the country less competitive on a global scale, since they cannot compete with countries that have lower wages.