Applications

The Own-Wage Elasticity of Labor Demand and Minimum Wage Increases

20. The empirical evidence summarized in the text suggests that the overall elasticity of demand for labor in the long run is close to unitary in magnitude. For particular categories of labor, however, the results can be different. Demand for unskilled workers tends to be more elastic than demand for educated or highly skilled workers. Consequently, the magnitude of the own-wage elasticity of demand for teenage workers, for example, may be significantly greater than one in the long run. If the demand for unskilled labor is elastic at the current value of the minimum wage, will raising the minimum wage, holding all else constant, increase or decrease the total income flowing to those workers receiving the minimum wage? Explain your reasoning.

Union Bargaining Strength and the Hicks-Marshall Laws

21. A union’s ability to bargain for higher wages is thought to be constrained by the degree to which such wage increases cause significant reductions in employment for its members. When wage increases cause large reductions in union employment, unions are thought to have little power when bargaining over wages.

21a. Before the airline industry was deregulated (i.e., before competition increased), the union representing pilots flying for commercial airlines was generally regarded as one of the most successful unions in raising the wages of its members. On the other hand, the union representing garment workers had only very limited success in raising the wages of its members. Using the Hicks-Marshall laws of derived demand, rationalize why these unions might have had such different experiences.

21b. Trace through the effect increased airline competition should have had on the bargaining strength of the pilots’ union. Similarly, trace through the effect that increased emphasis on free trade (i.e., the elimination of tariffs and quotas) would have on the power of the garment workers’ union.

Health Care Reform and the Hicks-Marshall Laws

22. One approach to health care reform is the so-called “play or pay” approach. Under this approach, employers are required to either provide health insurance to their employees or contribute to a fund which the government would use to provide insurance for all those lacking coverage. Consider three competing proposals for how these contributions could be determined.

Plan A: Contributions would be required for every hour an employee works (e.g., 10 cents per hour).

Plan B: Contributions would be some percentage of the value of the firm’s buildings, land, and machinery (e.g., 2% of the total property value).

Plan C: Contributions would be required for every unit of output a firm produces (e.g., 50 cents per unit of output).

22a. While all the plans have the potential to reduce employment opportunities, which plan would probably have the least impact on employment? Explain your reasoning.

22b. For each plan, list the conditions that would lead to the largest reduction in employment.
Employment Effects of the Minimum Wage

23. Suppose market demand is given by the equation

\[ W = 25 - 0.5L. \]

The current wage is $4. An above equilibrium minimum wage of $6 is imposed at the same time labor demand shifts out to

\[ W = 25 - \frac{1}{3}L. \]

23a. What was the original employment level? What is the new employment level?

23b. Has the minimum wage reduced employment opportunities? If so, by how much?

Technological Change and Job Losses

24. In an article in *Forbes*, June 29, 1987 (pp. 68–70), economist Richard B. McKenzie criticized the obsession many policymakers have with preserving jobs. McKenzie asks:

“[I]s job creation, apart from any corresponding increase in output, the proper measure of economic success? If so, then forget all those costly and complex programs to make America competitive. I have a simple one-line statute that will create 60 million jobs overnight: Outlaw farm machinery.”

24a. What is a better measure of economic success than the number of jobs created?

24b. How can one argue that technological advances (like the invention of new and better farm equipment) improves the well-being of society when it clearly results in lost jobs?

24c. Do you see any similarities between laws designed to make plant closings more difficult and McKenzie’s tongue-in-cheek suggestion to ban farm machinery?