UNIVERSITÄT
BAYREUTH

Prof. Dr. Hartmut Egger
Chair of Economics II
– International Macroeconomics and Trade –

Seminar on: "Minimum Wages and Employment"

The introduction of a minimum wage is one of the top objectives in the current coalition agreement for the election period 2013-2017 in Germany. The public debate on this issue has been very controversial. On the one hand, proponents argue that such a policy reform could increase households income and thereby boost domestic demand. Critiques, however, point at potential negative effects consisting in a reduction of employment, especially in economically weaker regions and/or for less-skilled workers. In this seminar we will first understand the basic neo-classical labor market model with a minimum wage before turning to several important different perspectives such as minimum wages in the context of imperfect competition, international trade,

Requirements

- Active participation in the seminar
- Seminar presentation and moderation of the discussion afterwards
- Written work of about 10 pages (main text) at Bachelor level and 12 pages at Master level
- Economics and IWE/IWG students can acquire 5 CP in their Bachelor program and 6 CP in their Master program (only in the area „Individueller Schwerpunkt“ / „Individuelle Spezialisierung“). P&E Bachelor students can acquire 8/10 CP (depending on their program regulations) if the course is selected as Verzahnungsseminar. For the additional points, these students have to participate in a „final discussion“ on the course. (This course cannot be selected as „Electives“ course in the new P&E Master program).
- There is no necessity for preparing written work or participating in the „final discussion“ if P&E Bachelor students would like to acquire 2 CP (kleiner Schein).

Organization

There will be an introductory lecture early in the semester: April, 23rd 2014 10-12 am (S 61). In this introductory lecture, we will get in touch with institutional settings of minimum wages in selected countries and introduce a simple labor market model to understand first principle mechanisms of a minimum wage. During this first meeting, the topics will be assigned to students. The second and main part of the seminar will take place on July 3rd 2014 8 am – 8 pm (S 42) and July 4th 2014 8 am – 8 pm (S48).

Please send all course-related questions to daniel.etzel@uni-bayreuth.de.

Noteworthy: The language of the seminar is intended to be English.

Application and deadlines

- Applicants must enroll until **April 17th 2014**, using the following link: application. **Three topics** have to be indicated in the application form!
- Students who can participate in the seminar will be notified not later than April 18th 2014. Please make sure that the e-mail address in your application is correct and up to date, as we will use this contact information for correspondence. (Note that we do not give any information upon acceptance before that date. E-mails with such requests will be deleted without response!)
- Late applications can be considered until April 22nd 2014 provided that there is free capacity.
- Deadline for handling in written work: July 14th 2014. (Slides must be handed in three days prior to the presentation.)

Seminar Topics

1. **Manning, Alan (2004), Monpsony and the efficiency of labour market interventions. *Labour Economics 11(2)*, 145-163.**
   http://dx.doi.org/10.1016/j.labeco.2003.09.003
   Implicit in many discussions of labour market policy is the assumption that, in the absence of interventions, the operation of the labour market is well-approximated by the perfectly competitive model. The merits or demerits of particular policies is then seen as a trade-off between efficiency and equality. This paper analyzes the impact of a variety of policies—the minimum wage, trade unions, unemployment insurance, and progressive income taxation—on efficiency when labour markets in the absence of intervention are monopsonistic and not perfectly competitive. A simple version of the Burdett and Mortensen [Inter. Eco. Rev. 39 (1998) 257] model is used for this purpose.

2. **Brecher, Richard A. (1974), Minimum Wage Rates and the Pure Theory of International Trade. *Quarterly Journal of Economics 88(1)*, 98-116.**
   http://*dx.doi.org/10.2307/1881796*
   --- no abstract ---

3. **Egger, Hartmut, Peter Egger and James M. Markusen (2012), International Welfare and Employment Linkages Arising from Minimum Wages. *International Economic Review 53(3),* 771-790.**
   http://dx.doi.org/10.1111/j.1468-2354.2012.00700.x
   We formulate a two-country model with monopolistic competition and heterogeneous firms to reconsider labor market linkages in open economies. Labor market imperfections arise by virtue of country-specific real minimum wages. Abstracting from selection of just the best firms into export status, standard effects on marginal and average firm productivity are reversed in our model, yet there are significant gains from trade arising from employment expansion. In addition, we show that with firm heterogeneity an increase in one country's minimum wage triggers firm exit in both countries and thus harms workers at home and abroad.

4. **Lee, David and Emmanuel Saez (2012), Optimal minimum wage policy in competitive labor markets. *Journal of Public Economics 96(9-10),* 739-749.**
   http://dx.doi.org/10.1016/j.jpubeco.2012.06.001
   This paper provides a theoretical analysis of optimal minimum wage policy in a perfectly competitive labor market. We show that a binding minimum wage -- while leading to unemployment -- is nevertheless desirable if the government values redistribution toward low wage workers and if unemployment induced by the minimum wage hits the lowest surplus workers first. This result remains true in the presence of optimal nonlinear taxes and transfers. In that context, a minimum wage effectively rations the low skilled labor that is subsidized by the optimal tax/transfer system, and improves upon the second-best tax/transfer optimum. When labor supply responses are along the extensive margin, a minimum wage and low skill work subsidies are complementary policies; therefore, the co-existence of a minimum wage with a positive tax rate for low skill work is always (second-best) Pareto inefficient. We derive formulas for the optimal minimum wage (with and

without optimal taxes) as a function of labor supply and demand elasticities and the redistributive tastes of the government. We also present some illustrative numerical simulations.

5. **Card, David and Alan B. Krueger (1994), Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania, *American Economic Review 84(4)*, 772-793.**
The voluminous literature on minimum wages offers little consensus on the extent to which a wage floor impacts employment. For both theoretical and econometric reasons, we argue that the effect of the minimum wage should be more apparent in new employment growth than in employment levels. In addition, we conduct a simulation showing that the common practice of including state-specific time trends is in fact on the rate of job growth. Using three separate state panels of administrative employment data, we find that the minimum wage reduces net job growth, primarily through its effect on job creation by expanding establishments. These effects are most pronounced for younger workers and in industries with a higher proportion of low-wage workers.

6. **Meer, Jonathan and Jeremy West (2013), Effects of the Minimum Wage on Employment Dynamics. *NBER Working Paper No. 19262*.**
The voluminous literature on minimum wages offers little consensus on the extent to which a wage floor impacts employment. For both theoretical and econometric reasons, we argue that the effect of the minimum wage should be more apparent in new employment growth than in employment levels. In addition, we conduct a simulation showing that the common practice of including state-specific time trends will attenuate the measured effects of the minimum wage on employment if the true effect is in fact on the rate of job growth. Using three separate state panels of administrative employment data, we find that the minimum wage reduces net job growth, primarily through its effect on job creation by expanding establishments. These effects are most pronounced for younger workers and in industries with a higher proportion of low-wage workers.

7. **Frings, Hanna. (2013), The Employment Effect of Industry-Specific, Collectively Bargained Minimum Wages. *German Economic Review 14(3)*, 258-281.**
http://dx.doi.org/10.1111/geer.12009
This study estimates the employment effects of industry-specific, collectively bargained minimum wages in Germany for two occupations associated with the construction sector. I propose a truly exogenous control group in contrast to the control group design used in the literature. Further, a difference-in-differences-in-differences estimator is presented as a robustness test for occupation-specific and/or industry-specific, time-varying, unobserved heterogeneity. I do not find a significantly negative employment effect, even though the minimum wage is binding in (East) Germany. Possible explanations include substitution effects, non-compliance and models of monopsonic competition.

8. **Cahuc, Pierre, Stéphane Carcillo, Ulf Rinne and Klaus.F. Zimmermann (2013), Youth Unemployment in Old Europe: The Polar Cases of France and Germany. *IZA Discussion Paper 7490*.**
France and Germany are two polar cases in the European debate about rising youth

unemployment. Similar to what can be observed in Southern European countries, a "lost generation" may arise in France. In stark contrast, youth unemployment has been on continuous decline in Germany for many years, hardly affected by the Great Recession. This paper analyzes the diametrically opposed developments in the two countries to derive policy lessons. As the fundamental differences in youth unemployment are primarily resulting from structural differences in labor policy and in the (vocational) education system, any short-term oriented policies can only have temporary effects. Ultimately, the youth unemployment disease in France and in other European countries has to be cured with structural reforms.

9. **Falk, Armin, Ernst Fehr and Christian Zehnder (2006), Fairness Perceptions and Reservation Wages – The Behavioral Effects of Minimum Wage Laws. *Quarterly Journal of Economics 121(4)*, 1347-1381.**
   http://dx.doi.org/10.1093/qje/121.4.1347
   In a laboratory experiment we show that minimum wages have significant and lasting effects on subjects' reservation wages. The temporary introduction of a minimum wage leads to a rise in subjects' reservation wages which persists even after the minimum wage has been removed. Firms are therefore forced to pay higher wages after the removal of the minimum wage than before its introduction. As a consequence, the employment effects of removing the minimum wage are significantly smaller than are the effects of its introduction. The impact of minimum wages on reservation wages may also explain the anomalously low utilization of subminimum wages if employers are given the opportunity to pay less than a minimum wage previously introduced. It may further explain why employers often increase workers' wages after an increase in the minimum wage by an amount exceeding that necessary for compliance with the higher minimum. At a more general level, our results suggest that economic policy may affect people's behavior by shaping the perception of what is a fair transaction and by creating entitlement effects.

10. **Aghion P., Yann Algan and Pierre Cahuc (2008), Can Policy Influence Culture? Minimum Wage and the Quality of Labor Relations. *CEPREMAP Working Paper 0801*.**
   Can public policy affect culture, such as beliefs and norms of cooperation? We investigate this question by evaluating how state regulation of minimum wage interacts with unionization behavior and social dialogue. International data shows a negative correlation between union density and the quality of labor relations on one hand, and state regulation of the minimum wage on the other hand. To explain this relation, we develop a model of learning of the quality of labor relations. State regulation crowds out the possibility for workers to experiment negotiation and learn about the true cooperative nature of participants in the labor market. This crowding out effect can give rise to multiple equilibria: a “good“ equilibrium characterized by strong beliefs in cooperation, leading to high union density and low state regulation; and a “bad“ equilibrium, characterized by distrustful labor relations, low union density and strong state regulation of the minimum wage. We then use surveys on social attitudes and unionization behavior to document that minimum wage legislation and union density do affect beliefs about the scope of cooperation in the labor market.