# Does a higher minimum wage cost jobs?

A wage floor in the labor market: when it bites, when it adds jobs, and what New Jersey 1992 showed.

## 1 Problem · tool

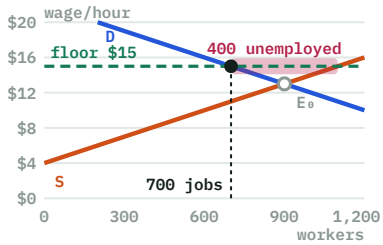
price floor

- **Problem** → some jobs pay very little · some employers hold wages down
- **Tool** → **minimum wage** = lowest hourly pay the law allows = **price floor on labor** · employer pays, not the state · US federal **$7.25** since 2009
- Town model ( `w` = wage $/hour · `L` = workers, in hundreds): demand = value of a worker `w = 22 − L` · supply `w = 4 + L` ⇒ market **$13**, **900** workers

## 2 Many employers

binding floor

- Floor **above** market wage = **binding** ⇒ firms want FEWER workers · more people want a job MORE
- $15 → firms want **700** · **1,100** want a job ⇒ **400 unemployed** (200 jobs lost + 200 new seekers)
- $14 → **800** jobs · **1,000** seekers ⇒ **200** unemployed · `unemployed = want a job − jobs`
- Floor **below** market wage (e.g. $10) = **non-binding** ⇒ nothing changes · compare the floor with the **going wage**




## 3 Winners · losers

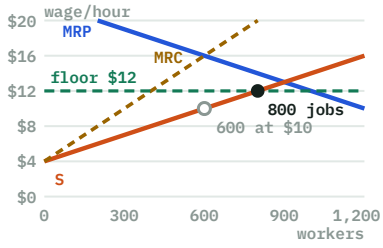
wage bill

- `wage bill = workers × wage` · $13: 900 × 13 = **$11,700** an hour · $15: 700 × 15 = **$10,500** ⇒ **−$1,200**
- 700 keep a job: **+$2** each = +$1,400 · 200 lose: −$13 each = **−$2,600** (jobless earn 0)
- Worth it? ⇒ **normative** (value), not data

## 4 One employer

monopsony

- **Monopsony** = one buyer of labor · hiring one more ⇒ raise pay for **all** ⇒ **MRC** (extra cost of a worker) `= 4 + 2L` > wage
- Hires where **MRC = MRP** (value of one more worker = demand): **600** at **$10** (competition: 900 at $13) ⇒ fewer jobs, lower pay
- Floor **$10 → $13** ⇒ jobs **up**: $12 → **800** · $13 → **900** · no unemployed
- Above $13 ⇒ jobs **down** again: $16 → **600** · nobody sees the $13 turning point ⇒ bigger rise = bigger risk




## 5 Evidence

New Jersey 1992

- **Natural experiment** = real event hits one group, not a similar one · 1 Apr 1992 New Jersey (NJ) **$4.25 → $5.05** (+19%) · Pennsylvania (PA) unchanged · 410 fast-food restaurants (economists Card & Krueger)
- Jobs per restaurant: NJ 20.4 → 21.0 (**+0.6**) · PA 23.3 → 21.2 (**−2.1**)
- **Difference in differences** = change treated − change comparison ⇒ 0.6 − (−2.1) = **+2.7** ⇒ no sign of job loss
- Practice: X −1, Y −4 ⇒ −1 − (−4) = **+3** · other studies: small drop, debated · 138 state rises: low-wage jobs ≈ same · CBO (US Congress budget office) 2019, $15: **−1.3 million** jobs (0 to −3.7 million), **17 million** paid more

## 6 Trade-off

policy card

- FOR low-paid earn more · where employers hold wages down jobs need not fall · AGAINST too high ⇒ least experienced too costly to hire · fewer hours, higher prices
- **Positive** (what is, data can test): NJ jobs did not fall · **Normative** (what should be, values): “should be enough to live on”
- Policy card: problem **low pay** → tool **wage floor** → model **many firms: −jobs · one firm: +jobs** → evidence **NJ 1992** → trade-off **pay vs jobs if too high**