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- ▶ It is poorly enforced,
  - ▶ only about 60% of those eligible actually get  $\bar{w}$  or more.

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- ▶ If  $\bar{w} > w^*$  employment constrained by demand side of market
  - ▶ leads to involuntary unemployment

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  - ▶ Increased Min. wage can attract better qualified candidates to min. wage jobs
  - ▶ HS grads can crowd out dropouts if employers prefer them

## *Evidence on employment effects*

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  - ▶ (there was not enough migration in that time to explain this)
- ▶ Theory needs to reconcile the new results with the old ones

## Minimum Wage in (non-discriminating) Monopsony

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- ▶ Employment rises as  $\bar{w}$  rises until  $\bar{w} = w^*$ .
- ▶ If  $\bar{w}$  rises above  $w^*$  employment falls back again.

## *Evidence revisited*

- ▶ Under monopsony increasing minimum wage first increases then decreases employment
- ▶ In 1970's min. wage had high real value and increases appeared to create unemployment
- ▶ In 1990's min. wage had low real value and increases had little or negative effect on unemployment

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- ▶ But a minimum wage set too high:
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  - ▶ can cause crowding out of lower skilled workers by higher skilled workers
  - ▶ can cause substitution to capital from labor
  - ▶ may reduce high school drop-out rate in longer term.