Some Hong Kong politicians have strongly demanded legislation which would introduce a minimum wage for low income earners, such as security guards and cleaning workers.

(a) Consider an industry without unemployment when there is no minimum wage. With the aid of a diagram, explain how the introduction of an effective minimum wage would affect

(i) the number of workers employed in that industry. (4 marks)

(ii) the total wage earnings of the workers in that industry. (7 marks)

(b) “A minimum wage should be introduced to protect the interests of low-income workers.” Evaluate this proposal. (7 marks)
Level 2 exemplar and comments

If there is without unemployment in the industry originally, the wage level and labour required is in its equilibrium at \((W_0, L_0)\) with the imposition of a minimum wage, the wage level would rise to \(W_1\), and the labour required would drop to \(L_1\), and an excess supply of labour would be resulted. The number of labour employed in the industry would decrease.

ii) As there is a minimum wage imposed, the wage level is forced to rise above its equilibrium level to \(W_1\). Here is an excess supply of labour under new wage level. The number of workers employed in the industry decreased.

However, the total wage earning of the worker may increase, decrease or unchanged. It depend on the elasticity of demand. If the elasticity of
The candidate shows a very basic understanding of some economic terms and provides a basic description of the issue. She demonstrates some basic graphical skills in analyzing the effect of the minimum wage law on the number of workers employed. However, she demonstrates limited understanding of the link between the price elasticity of demand and total wage earnings.

...demand is smaller than the elasticity of supply, the new total wage would be greater as the decrease of labour required is smaller than the amount of wage increased and vice versa...

The total wage earning of worker would be the same after the imposition of minimum wage if the elasticity of demand is equal to the elasticity of supply.

b) A minimum wage should be introduced or not is depend on the initial wage level of that industry. If the initial price level is below equilibrium, a minimum wage is needed. However, if the wage level is already in the equilibrium, a imposition of minimum wage would not help those worker as the there would be increase unemployment. There is no relationship with the amount of wage the worker is receiving...