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)
(i) For an effective minimum wage system, the wage must set higher than the equilibrium wage. Originally, there is no unemployment that the equilibrium wage is the same as full employment wage. And after the introduction of minimum wage, the quantity supplied of workers higher than the quantity demanded at the fixed minimum wage, so that the unemployment exists and the number of workers employed in that industry decrease as the cost of employing increases.

(ii) The total wage earnings of workers is uncertain. If the demand for workers in that industry is elastic, the percentage increase in wage is less than the percentage decrease in workers employed, so that the total wage earnings will decrease. And if the demand is inelastic,
The candidate is able to apply economic concepts such as minimum wage, wage rate, quantity demanded of workers and the price elasticity of demand to explain the effects of introducing an effective minimum wage. S/he uses a correct supply-demand diagram in his/her analysis and the analysis is logically consistent and well-illustrated. S/he also demonstrates informed judgment on the introduction of an effective minimum wage but only from a limited number of different perspectives (the unemployment problem and the non-price competition in the labour market).