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)
After the introduction of an effective minimum wage, the wage rate increases from \( W_1 \) to \( W_2 \), the number of workers employed in that industry decreases from \( Q_2 \) to \( Q_1 \).

(ii) The total wage earnings of the workers may increase, decrease, or remain unchanged. It depends on the price elasticity of demand. If the demand for workers in the industry is inelastic, the percentage decrease in quantity demanded would be smaller than the percentage increase in wage. The total wage earnings of the workers in that industry increase. Meanwhile, if the demand for workers in the industry is elastic, the percentage decrease in quantity demanded would be greater than the percentage increase in wage, the total wage earnings of the workers thus decrease.

(b) If a minimum wage is introduced, the number of workers employed will decrease (by (a)(i)). So, introduction of a minimum wage would lead to unemployment problem. The interest of low-income workers cannot be protected.

Considering the total wage earnings of the workers, after the introduction of a minimum wage, by (a)(ii), the total wage
The candidate is able to apply economic concepts accurately to explain the effects of introducing an effective minimum wage. S/he manages to integrate all relevant economic terms, concepts and relationships in his/her analysis. Also, s/he presents an accurate supply-demand diagram as a tool to help with his/her task. The analysis is logically consistent and comprehensive. S/he also demonstrates informed judgment and evaluation of the proposal to introduce an effective minimum wage from different perspectives such as the possibility of a reduction in total wage earnings and the undesirable consequences of unemployment.