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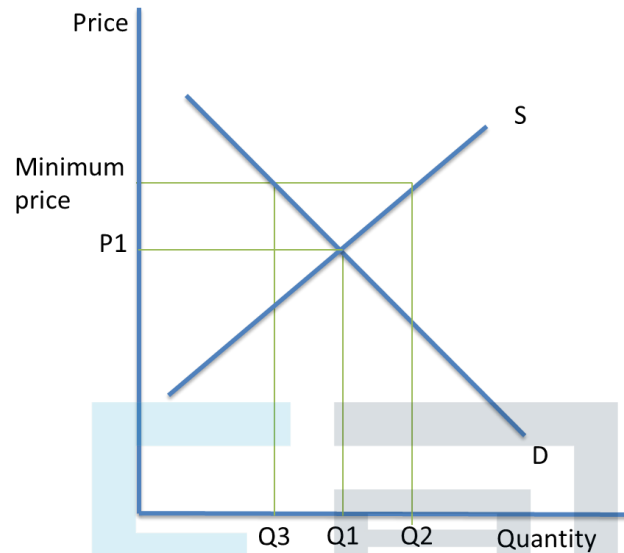
The National Minimum Wage



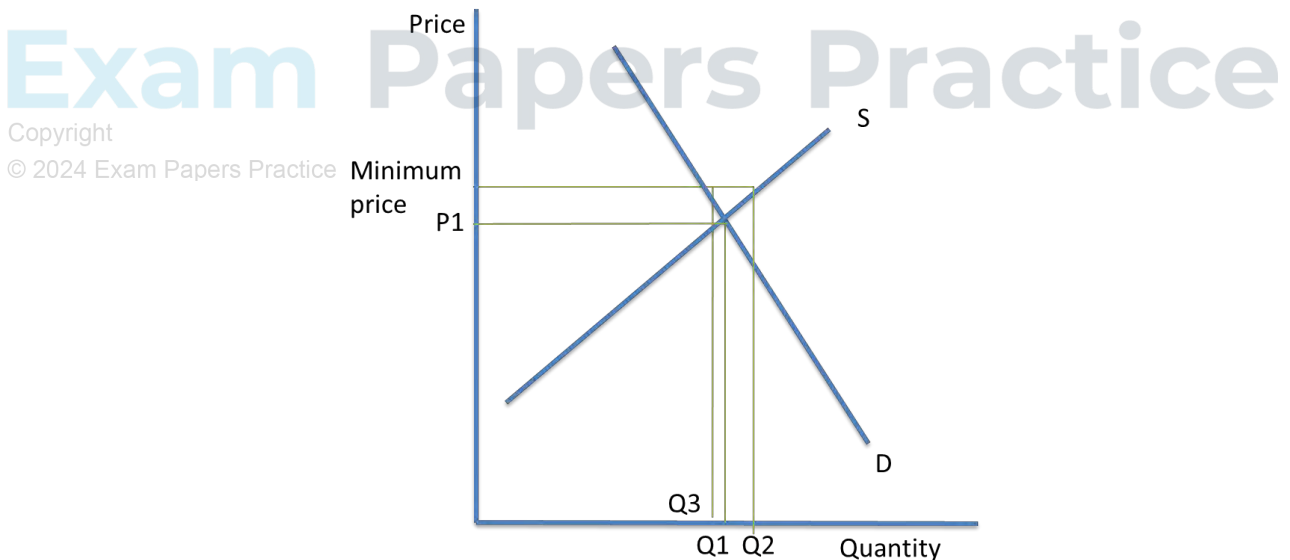
**AQA A Level Economics
Revision Notes**

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The **National Minimum Wage** is an example of a minimum price.
 The minimum wage **has to be set above the free market price**, just like other minimum prices, otherwise it would be ineffective.



The diagram above suggests that a minimum wage leads to a fall in the employment rate ($Q1 - Q3$). It depends on what level the wage is set at. An inelastic labour demand (diagram below) will mean there is only a small contraction in demand for labour ($Q1 - Q3$).



There has been no evidence of a rise in unemployment with a rise in the NMW so far in the UK. Some firms say this is because the NMW is still relatively low.

- The NMW will yield the positive externalities of a decent wage, which will increase the standard of living of the poorest, and provide an incentive for people to work.
- It could make it harder for young people to find a job, because their lack of experience might not be valuable to firms who are paying more for their labour.
- The government might make more tax revenue, due to more people earning higher wages.
- A higher wage could make the country less competitive on a global scale, since they cannot compete with countries that have lower wages.



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