

Section 6: Wage differentials, discrimination, NMW

Conditions for wage discrimination(workers are paid different wages for equal work/job position)
-There is higher perceived MRP for some workers compared to others
-degree of monopsony power
-groups of worker can be identified to succumb to wage discrimination: young, part-time, immigrants
-workers must be able to negotiate for their pay and conditions
-no leakage of the wage discrimination to others in the company

For workers

Pros
-wages costs reduce so more jobs available

Cons
-exploitation of vulnerable workers = accept lower wages and lower standard of living
-force wages of non-discriminated workers as there is increased supply of them

Employers

Pros
-higher profits can be reinvested= strengthen LT market position

Cons
-additional administration contracts to pay people differently
-social unrest due to disputes in wages

Economy

Pros
-dynamic efficiency due to reinvestment= increasing LR growth

Cons
-increases inequality

Reasons for Labour Discrimination(due to differences in gender, religion, ethnicity)
-reduces cost of production as discriminated worker receive less pay
-prejudice of employer against certain groups of workers
-employers suffer information failure, that men are more qualified than women

Impact

Workers
-discriminated will get lower wages
-Non-discriminated will receive higher wages which will attract more of these workers

Employers
-firms will consistently fail to attract the most productive workers=productivity falls=higher costs

Economy
-underemployment/unemployment so economy operates below capacity hampering growth
-increases income inequality
-more benefits paid as discriminated are unemployed so higher tax rate on future generation

NMW(legally enforced)
-legal hourly pay rate for different age groups
-tackles inequality and poverty but the unemployment is a form of govt failure

Graph:
-causes unemployment due to greater supply than demand for labour
-more unemployment when supply of labour is elastic

Pros
-employment increases in monopsony markets
-helps low-income earners
-more equitable distribution of income
-reduces voluntary unemployment
-reduces wage differentials
-boosts worker morale
-fiscal benefit as more income tax capital(training) to make MRP=NMW

Cons
-increases wage costs causing unemployment
-decreases competitiveness of UK G and S
-contributes to inflation
-poorest members(disabled, sick) don't benefit from increased wage
-doesn't account for regional differences (costs of living are higher in the south)
-those paid higher than NMW may want to sustain the wage differential and so asks for higher pay
-Govt employs disproportionate amount of workers= burden on govt finances

Reasons for wage differentials
-workers have difference MRPs(differences in training/skills as labour is not homogenous
-Differences in derived demand for labour
-non-monetary considerations: compensates wage differentials
-Labour is not perfectly mobile: Geographical mobility results in regional differences in wages because workers are not willing to move driving wages up OR certain industries only located in certain parts of UK, Occupational immobility as some occupation require lots of skills so less supply of workers=higher wages
-imperfect knowledge about which jobs are higher paid
-Trade unions can push up wages
-Monopsonies have wage setting ability

Examples

Advantages
-incentivises education to access higher skilled jobs which are higher paid
-high skilled workers spend money to generate multipliers and trickle down effect, job creation
-incentive to be entrepreneurial to earn higher wages
-encourages work=reducing reliance on welfare benefits
-workers move to profession they are most productive in(inefficient resource allocation)

Disadvantages
-income inequality as high income earners have high MP to save so the trickle down effect will not benefit low income earners
-govt are monopsony employer so they can't increase the wage to quickly as there will be inflation

Evaluation
-how big income inequality is
-govt intervention to fix wage differentials may result in govt failure
-in SR income inequality is created
-in LR negative externalities from income inequality gets worse

Gender pay gap
-women take more maternity leave, have less opportunities in LEDCs, work in more low-paid occupations, less trade union membership
-discrimination

Footballers earn more than teacher
-earn lots of revenue from merchandise, TV and other streams
-low supply of footballers compared to teachers
-state teachers are employed by monopsonies so wage is lower
-teaching has vocational element so wages are kept lower
-Footballers wanted for their uniqueness

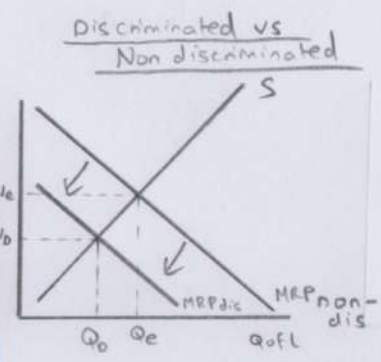
Londoners paid more
-shift from manufacturing to financial sector jobs
-most financial sector jobs are London so demand is high so wage is higher
-financial sector jobs are higher skilled
-workers in the north are more occupationally and geographically immobile

Ethnic groups
-low english proficiency
-minority ethnic groups have lower level of qualification levels
-concentrated in low-wage jobs
-have strong family ties so geographical immobility
-discrimination

- For workers**
 - Pros
 - wages costs reduce so more jobs available
 - Cons
 - exploitation of vulnerable workers = accept lower wages and lower standard of living
 - force wages of non-discriminated workers as there is increased supply of them
- Employers**
 - Pros
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 - additional administration contracts to pay people differently
 - social unrest due to disputes in wages
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Reasons for Labour Discrimination (due to differences in gender, religion, ethnicity)

- reduces cost of production as discriminated worker receive less pay
- prejudice of employer against certain groups of workers
- employers suffer information failure, that men are more qualified than women

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- imperfect knowledge about which jobs are higher paid
- Trade unions can push up wages
- Monopsonies have wage setting ability

Advantages

- incentivises education to access higher skilled jobs which are higher paid
- high skilled workers spend money to generate multipliers and trickle down effect, job creation
- incentive to be entrepreneurial to earn higher wages
- encourages work = reducing reliance on welfare benefits
- workers move to profession they are most productive in (efficient resource allocation)

Disadvantages

- income inequality as high income earners have high MP to save so the trickle down effect will not benefit low income earners
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Londoners paid more

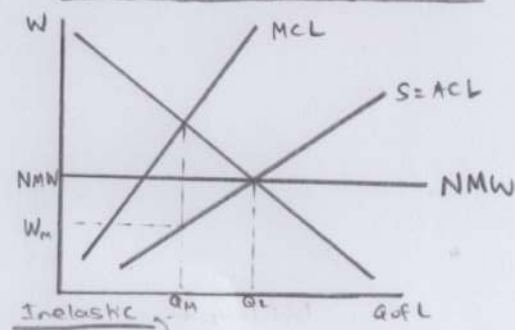
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- have strong family ties so geographical immobility
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Examples

NMW in monopsony Market



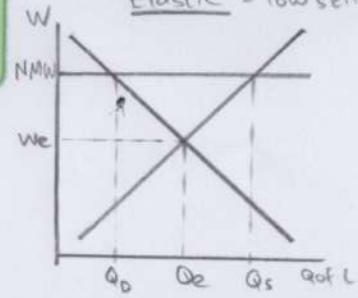
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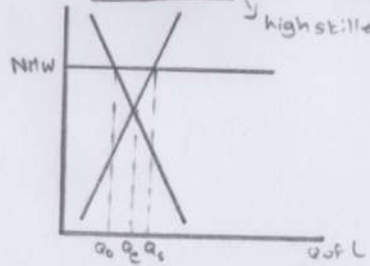
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Elastic - low skilled



Inelastic - high skilled



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 - helps low-income earners
 - more equitable distribution of income
 - reduces voluntary unemployment
 - reduces wage differentials
 - boosts worker morale
 - fiscal benefit as more income tax
 - encourages employers to boost human capital (training) to make $MRP = NMW$
- Cons**
 - increases wage costs causing unemployment
 - decreases competitiveness of UK G and S
 - contributes to inflation
 - poorest members (disabled, sick) don't benefit from increased wage
 - doesn't account for regional differences (costs of living are higher in the south)
 - those paid higher than NMW may want to sustain the wage differential and so asks for higher pay
 - Govt employs disproportionate amount of workers = burden on govt finances