

MICROECONOMICS AT WORK EXERCISE

THE PRICE OF LABOUR

REFERENCES: G. Megalogenis, 'Families worse off after \$17 pay hike', B. Norington, 'Wage rise a line in sand for low paid' and 'And another thing...' (Editorial), *The Australian*, 8 June 2005, pp. 1, 4 and 14.

CHAPTERS RELEVANT TO THIS EXERCISE: 3 and 13

CONTEXT

The price of labour (the wage rate) is determined in labour markets largely as a result of negotiation between employers (who demand labour) and employees (sellers of labour). The outcome – the terms and conditions on which labour is employed, including the price of labour – is influenced by government regulation. In Australia this influence is less than has historically been the case although the government – via the Industrial Relations Commission (IRC) – sets a *price floor* in the form of a *minimum wage* (see pp. 68-71). (In future this floor will be set by a proposed Fair Pay Commission rather than the IRC.) These articles are in response to a recent (and final) 'ruling' by the IRC determining an increase in the minimum wage.

QUESTIONS

1. What is the floor price (minimum wage) set according to the latest IRC ruling? How much of an increase does this represent? How does this compare with the average weekly wage?
 2. What arguments underpin the desirability of a minimum wage?
 3. What arguments have been put forward that this is 'too high' (or should not exist at all)?
 4. Explain the proposition (put in *The Australian* editorial) that the increase represents a "split the difference" mentality [inherent in] the IRC process'.
 5. Explain the argument behind the proposition that families are actually 'worse off' as a result of the increase.
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1. Discuss the proposition (in the Editorial) that 'the minimum wage has served [both] workers and employers poorly'.