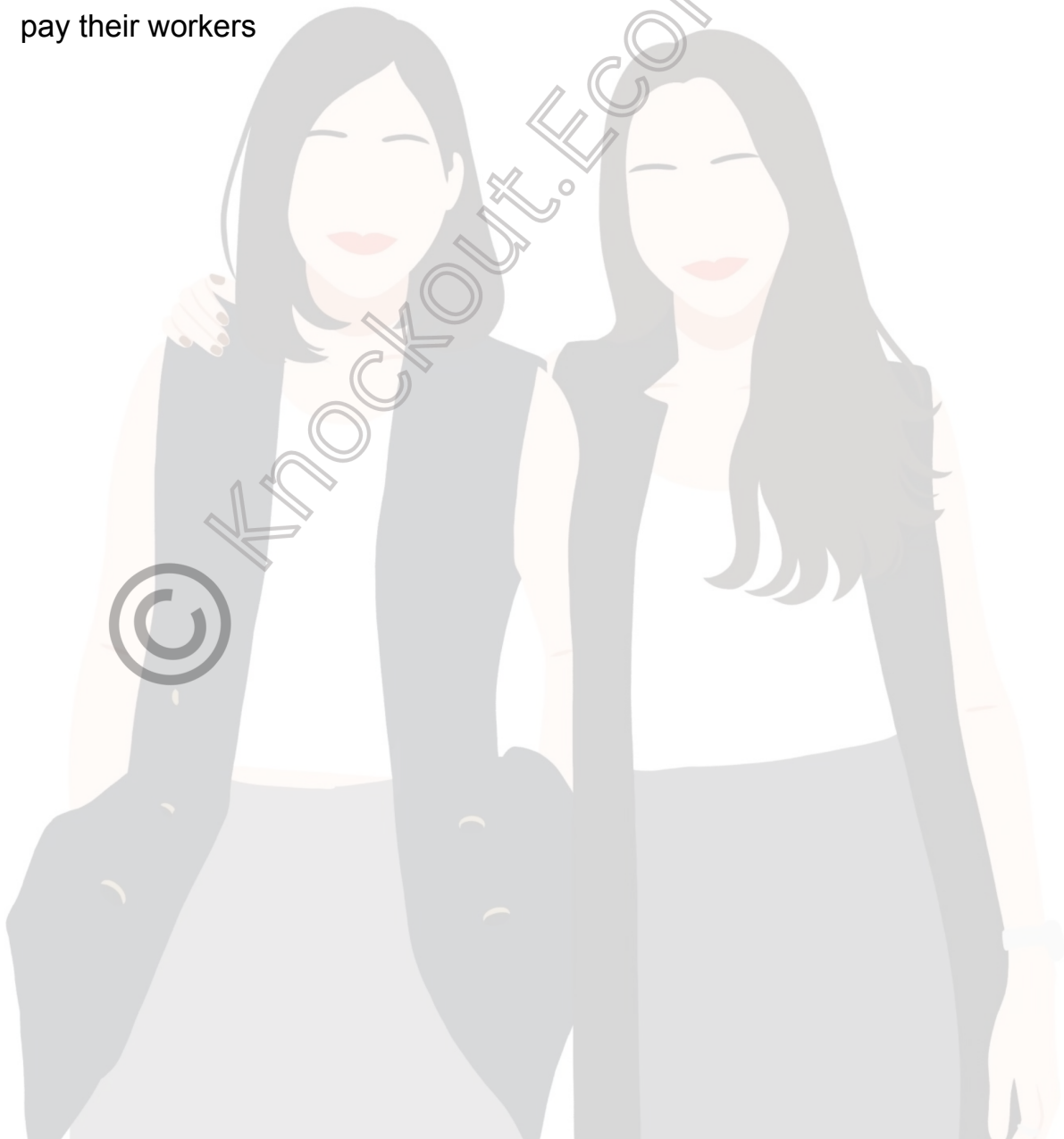


CHAPTER 20 : Government intervention in labour markets

Key terms

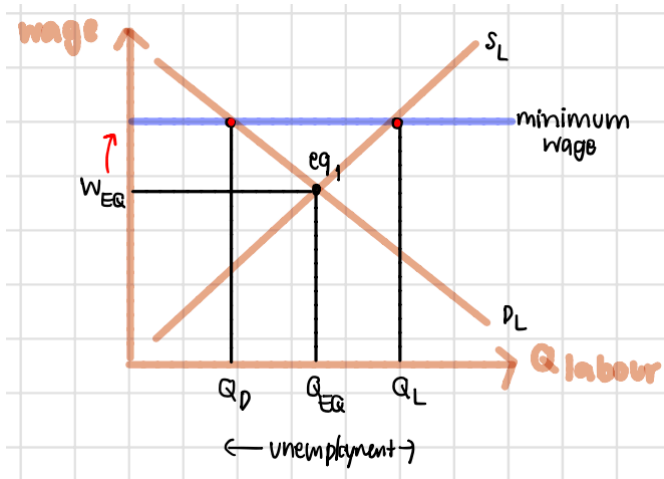
1. Discrimination : occurs in the labour market when there is an information failure leading employers to appreciate one group in society and deliberately undervalue another group
2. Maximum wage : a legal maximum wage rate per hour or total pay; employers cannot pay a higher amount than this to their workers
3. Minimum wage : the legal minimum wage rate per hour which employers must pay their workers



1. Minimum wages

: Government will set wage above equilibrium

Diagram

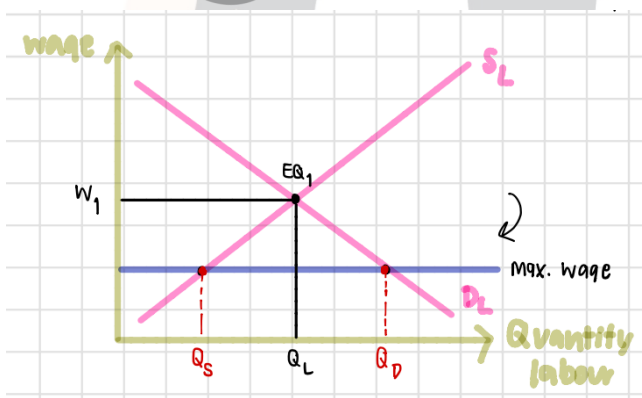


Advanatges	Disadvanatges
<ol style="list-style-type: none"> 1. Labour has more money to pay goods and services, there will be higher standard of living 2. It can causes economic growth 3. It can motivate labour to work more 	<ol style="list-style-type: none"> 1. It can causes higher unemployment 2. It can causes cost-push inflation 3. It can discourage MNC to invest in economy

2. Maximum wage

: Government will set wage below equilibrium to prevent too high wage

Diagram



Advanatges	Disadvanatges
<ol style="list-style-type: none">1. It can reduce cost of firm2. It can reduce cost push inflation	<ol style="list-style-type: none">1. It can causes brain drain2. There will be lower supply of labour in the economy3. Lower wage can decreases standard of living

3. Direct tax

: Increase in income tax can disincentive to work, hence it can reduce labour participate rate and lower supply of labour

While increase in corporate tax can reduce profit after tax, firms will require lower demand of labour

4. Measures to reduce geographical and occupational immobility

Eg. Training and education / Subsidy on cost of living / Reforming tax benefits system / Reducing discrimination in labour market

5. Measures to reduce discrimination and exploitation

- Government sets employees right and protects their jobs
- Government controls working condition eg. Controlling working of hours
- Government prevents eg. gender discrimination