UNCOMMON ECON

EPISODE OVERVIEW, QUESTIONS, & EXTENSIONS
Season 1 Episode 4
Price Controls

OVERVIEW

This episode explores the history and impact of minimum wage changes in the United States, focusing on how the minimum wage impacts racial income inequality. Established in 1938 as part of FDR's Fair Labor Standards Act, the federal minimum wage aimed to stabilize the post-Depression economy by setting a wage floor. Initially, the minimum wage did not cover all industries, excluding sectors like retail and agriculture where many Black workers were employed, thus contributing to racial income disparities. Under President Johnson's War on Poverty in 1966, minimum wage protections were expanded to include these sectors, which reduced the wage gap. Despite these improvements, disparities currently exist due to stagnation in the minimum wage, particularly for women in service occupations. The episode underscores the ongoing importance of minimum wage policies in reducing poverty and economic inequality.

Key Microeconomics Links

- **Price Floor**: The minimum wage is a price floor, below which you cannot pay workers. Price floors can be binding (above the market equilibrium) or non-binding (below the market equilibrium).
- **Labor Market**: Similar to other markets, the labor market has supply and demand for labor, with the equilibrium wage where supply and demand meet.
- **Income Inequality**: The disparity of income between two groups. Minimum wage reforms have historically impacted racial income disparities, particularly between Black and White workers.
- **Policy Impact**: The effects of federal policy changes on economic outcomes, including the impacts on workers, wages, and poverty.

Preview Question

Does the minimum wage lead to more income inequality or less income inequality?

Discussion Questions

1. What is a wage gap? How can a change to the minimum wage impact the wage gap?
2. How did the initial federal minimum wage policy contribute to racial income inequality in 1938? How did it change in 1966 when the minimum wage was expanded?

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3. Discuss the impact of President Johnson's War on Poverty in 1966 on minimum wage protections and racial income disparities.

4. How do minimum wage increases affect employment, productivity and worker turnover?

5. What are the long-term effects of minimum wage reforms on racial income equality?

6. How can minimum wage policies be designed to address existing disparities in wage distribution?

7. What are the potential drawbacks of increasing the minimum wage? Which groups are likely to oppose new minimum wage laws?

8. What are possible implications of different state minimum wages on racial income inequality across states?

9. Who is likely to benefit the most from an increase in the federal minimum wage in today's economy?

10. Consider an increase in the current minimum wage to $15/hour. Explain the overall impact this would have on poverty and inequality in the US.

Multiple Choice Questions

1. What was the purpose of the initial establishment of minimum wages in 1938?
   A) Reduction of poverty
   B) Increase the standard of living for workers
   C) Stabilize the national economy
   D) All of these

   Answer: D) All of these

2. Which industries were initially excluded from minimum wage protections in 1938?
   A) Transportation and manufacturing
   B) Retail services and agriculture
   C) Education and healthcare
   D) Technology and finance

   Answer: B) Retail services and agriculture

3. What was a major effect of expanding minimum wage coverage in 1966?
   A) Increased unemployment
   B) Decreased racial income disparities
   C) Higher inflation rates
   D) Reduced worker productivity

   Answer: B) Decreased racial income disparities

4. What has been the status of the federal minimum wage since 2009?
   A) It has increased annually
   B) It has remained unchanged
   C) It has decreased
   D) It has fluctuated

   Answer: B) It has remained unchanged

5. What is a potential benefit of increasing the minimum wage?
   A) Higher inflation
   B) Reduced poverty
   C) Increased unemployment
   D) Lower worker effort

   Answer: B) Reduced poverty

6. How did the expansion of minimum wage coverage in 1966 affect racial income inequality?
   A) Increased inequality
   B) Decreased inequality
   C) Had no effect
   D) Made workers change jobs

   Answer: B) Decreased inequality

7. According to research from the video, after the 1966 changes to minimum wages, Black workers experienced which of the following benefits?
   A) Improved well-being
   B) Reduction in turnover
   C) Wage gap reduction
   D) All of these

   Answer: D) All of these

8. In a typical labor market, when a binding price floor (minimum wage) is implemented, the result is:
   A) The quantity of labor supplied exceeds the quantity of labor demanded
   B) The quantity of labor demanded exceeds the quantity of labor supplied
   C) The quantity of labor demanded equals the quantity of labor supplied
   D) There is no change to the quantity of labor demanded or the quantity of labor supplied

   Answer: A) The quantity of labor supplied exceeds the quantity of labor demanded

9. Which factor provides some evidence that the minimum wage established may not have been binding?
   A) Income inequality has decreased
   B) Unemployment did not increase
   C) Inflation remained constant
   D) Poverty increased overall

   Answer: B) Unemployment did not increase

   10. Currently, what is true about income inequality between men and women?
   A) Women earn more than men in most industries
   B) Women earn less than men, particularly in service occupations
   C) Women earn the same as men across all occupations
   D) Women earn less than men only in agricultural work

   Answer: B) Women earn less than men, particularly in service occupations

True / False Questions

1. The federal minimum wage was first established to stabilize the economy after the Great Depression.
   Answer: True

2. Initially in 1938, the federal minimum wage applied to all workers.
   Answer: False

3. Expanding minimum wage protections in 1966 to include retail services and agriculture helped reduce racial income disparities.
   Answer: True

4. A binding minimum wage is set below the equilibrium wage, having no effect on employment.
   Answer: False

5. Minimum wage increases after 1966 have led to higher employment rates in certain areas.
   Answer: True

6. Women in service occupations currently earn the same wages as their white male counterparts.
   Answer: False

7. The expansion of minimum wage laws in 1966 was part of President Johnson's efforts to achieve racial justice.
   Answer: True

8. Income inequality between Black and White workers decreased significantly during the late 1960s and early 1970s due to minimum wage expansions.
   Answer: True

9. The federal minimum wage has increased regularly to keep up with inflation since 2009.
   Answer: False

10. Gender income disparities are most pronounced in high-tech industries according to the video.
    Answer: False

Application Questions

Table 1: Labor Market

Labor Demand (Quantity of labor, in millions of hours per week)	**Labor Supply (Quantity of labor, in millions of hours per week)**	**Wages (in $/hour)**
700	400	$6
650	500	$7
600	600	$8
550	700	$9
500	800	$10
450	900	$11

Questions

1. What is the equilibrium wage in the labor market?

2. Suppose the minimum wage is now set at $7 per hour. According to the table, what will be the equilibrium quantity of labor in the market? Is there more unemployment?

3. Suppose the minimum wage is now set at $9. According to the table, what will be the equilibrium quantity of labor in the market? Is there more unemployment?

4. Is it plausible that for some industries the minimum wage is binding and in others it is not? Explain. Is this a possible reason why unemployment did not increase in markets with predominately black workers when the minimum wage increased for all industries 1966?

Answers

1. The equilibrium is where the quantity of labor demanded equals the quantity of labor supplied. This occurs at $8/hour and 600 million hours per week.

2. At $7/hour, this is below the market equilibrium. When a price floor (the lowest price that can be charged) is below the market equilibrium, it will not be binding. Thus the equilibrium remains at $8/hour and 600 million hours per week. Employment is not impacted.

3. At $9/hour, this is above the market equilibrium This price floor will be binding, causing the new equilibrium wage to be equal to the floor, $9/hour. Now, the quantity demanded of labor will be 550 million hours, but quantity supplied will be 700 million hours. This results in unemployment of 700-550 or 150 million hours.

4. Yes, different labor markets may have different equilibrium wages. For example, one may expect markets for highly educated or highly skilled workers to have high equilibrium wages; in these cases, the minimum wage is likely non-binding, whereas for other markets, it may be binding. It is also possible that the minimum wage in 1966 was not binding for some industries such that unemployment did not rise.

Innovative Ways to Extend the Lessons

1. **Listen to our podcast!**
    - Student Assignment: Listen to the episode podcast and have students reflect: *What is lost or gained when research is translated into casual language? What did I hear that I missed in the video? What concepts does the video clarify that the podcast does not?*
2. **Data Collection**
    - Student Assignment: Ask students to find a credible source of data to examine the state minimum wages in the United States. Compare the state minimum wages to the federal minimum wage. Discuss how this may impact outcomes across states.
3. **Data Visualization Exercise**
    - Use data visualization tools to map the effects of minimum wage changes on racial income disparities over time, helping students understand trends and outcomes.