

Minimum Wage Experiment with Unemployment

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Abstract

I investigate the effect of minimum wage in gift-exchange labor market experiment, comparing full-employment treatment and unemployment treatment in which a employer can choose not to offer a contract. In the result, minimum wage raises wage but does not change effort level. These effects are not differ in treatments. Minimum wage increases worker's profit who is offered a contract while it decreases firm's profit and raises unemployment rate. Combining the effects, minimum wage leads to Pareto inferior result if unemployment is allowed. Additionally, I focus on the learning behavior of the firms and show they change thier behavior by experience.

JEL Classification: J38, J64, J41

Keywords: Minimum wage; Unemployment; Lab Experiment; Gift exchange; Incomplete Contract; Individual learning

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