

Minimum Wage Effects Across Heterogeneous Markets ^{*}

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Abstract

Recent developments in empirical studies have shown that an increase in minimum wage has at most negligible negative effect on overall employment level. This paper argues that local labor markets are diverse, in that the impact of minimum wage is concentrated in specific markets. In particular, we estimate the extent of surplus between each plant's value of marginal product of labor and wage rate, and examine whether the minimum wage impact varies across markets with differential surplus. We find that an increase in minimum wage significantly reduced the employment growth, only in markets with little surplus. Markets with high surplus experienced no decline in employment growth.

Keywords: minimum wage; market imperfection; production function estimation.

JEL Classification: C21; J18; J38; J21; J23.

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