

UNIVERSITY OF THE PEOPLE

BUS 1103-01 Microeconomics- AY2024-T1

Learning journal Unit 2

Instructor: [Galin Todorov](#)

The article analyzes the impact of minimum wage laws in Pakistan on the country's economy. Pakistan first introduced a nationwide minimum wage in 1994, and the wage floor has been raised multiple times since then. However, the minimum wage remains quite low in comparison to average wages in Pakistan.

The minimum wage represents a price floor - the lowest legal wage that can be paid to workers. By mandating a price floor, the aim is to increase compensation for low-paid workers in certain sectors. However, economic theory suggests price floors can also lead to surpluses or unemployment if set above the market-clearing equilibrium wage.

The research cited in the article indicates that Pakistan's minimum wage hikes have had mild positive impacts on wages in the formal sector without substantial job losses. This is likely because the minimum wage has remained below equilibrium wages, so the binding effects on the labor market have been limited. However, the minimum wage is not very relevant for most Pakistani workers employed in informal, seasonal, or migrant work. The wage floor mainly benefits formal sector workers in larger firms or government institutions.

There are arguments on both sides of whether the government should intervene to set a minimum wage in Pakistan. Supporters believe the minimum wage can lift compensation for the country's poorest workers and reduce income inequality without misemployment effects, given the wage floor remains low. It also encourages firms to shift away from reliance on cheap, unskilled labor. However, critics suggest market forces should determine wages and government-set price floors distort resource allocation. They also argue realistic minimum wage levels do little to help most Pakistani workers in the informal economy.

In my assessment, the evidence indicates Pakistan's minimum wage policy has likely done better than harm so far. It has provided modest wage increases to some vulnerable workers without substantial job loss. However, I think the minimum wage should be kept relatively low and reassessed periodically to avoid binding effects. The government should also consider supplementary policies like tax credits, vocational training, and formalization support to aid low-income workers beyond just a minimum wage. There are no simple policy solutions for a complex labor market like Pakistan's, so a nuanced approach is required. The minimum wage is one useful tool but not a silver bullet. Overall, the government does have a role in setting an appropriate wage floor, but this must be done judiciously and adapted over time as conditions evolve.

Reference:

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