

# Push and Pull: The Effect of Increasing the Minimum Wage and Reducing the VAT on Prices in Mexico

Mariana Calderón      Josué Cortés      Jorge Pérez Pérez  
Alejandrina Salcedo \*

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## Abstract

In January 2020, the minimum wage in the Mexican Border with the United States increased by a 100%. At the same time, the value-added tax (VAT) rate was halved. We develop a two-step identification strategy to estimate the effects of the minimum wage and the VAT on prices separately. We account for differential effects of the minimum wage on prices of goods with and without VAT. In the border, we find that the increase in the minimum wage is associated with a statistically significant increase in the prices of goods that pay VAT. The increases in prices due to the minimum wage were more than offset by decreases associated with the VAT, resulting in average prices that were lower than those that would have been observed in the absence of these policies.

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\*Banco de México. Av. 5 de Mayo 18, Centro, CDMX, México 06000. Calderón: mcalderon@banxico.org.mx. Cortés: jfcortes@banxico.org.mx. Pérez Pérez: Corresponding Author. jorgepp@banxico.org.mx. Salcedo: asalcedo@banxico.org.mx.

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