Increase in the Minimum Wage: A Perplexing Result?

You live in the city of San Francisco and your mother asked you about an article she just read that said an increase in the city's minimum wage would increase prices at city restaurants and not lead to a decrease in employment in the city's restaurant industry. The article said that local labor leaders said was the experience when the minimum wage was last increased. She know you are studying economics and asks you to explain how this happened. You sketch a diagram of the labor market in which you assume that the initial wage is $5, and the hike in the minimum wage is $2. You recognize that restaurants may be able to shift costs forward. You also sketch the market for restaurant dining in San Francisco. For simplicity you make the assumption that the demand for restaurant dining in San Francisco is perfectly inelastic. After sketching the forward shift of the full cost of the minimum wage hike you then show your mother the feedback effect in the labor market means no decrease in employment in the San Francisco restaurant industry:

For students new to price controls and labor markets, or for use in an online class to reduce the time spend drawing the diagram the below diagram can be included to reduce the drawing time

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| Initial Diagram: |
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