Minimum Wage Regression Essay, Research Paper

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John Jadro

Webonomics

Mr. Haessler

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Minimum Wage Regression

The proposed increase in minimum wage will do a number of things to the economy. The greatest effect it has will be on inflation. There is a strong correlation between raises in the minimum wage, and raises in inflation. The effect of raising the minimum wage on employment is very little. The correlation between an increase in inflation, and an increase in unemployment is weak also.

The strongest correlation is between increases in minimum wage predicting increases in inflation. The equation for this is CPI= -25.9+38.8 minimum wage. The R-sq value is 87.5%, and the R-sq(adj) value is 86.8%. This is proof of a strong relationship between the two variables. Increases in minimum wage predict increases in inflation 86.8% of the time. When minimum wage is increased, it brings a rise in inflation. There is more money put into the economy with a minimum wage hike, but inflation counteracts this. As inflation rises, the value of the dollar decreases. There is very little net change. The correlation between increases in minimum wage, and increased

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unemployment is extremely low. The equation that models this relationship is Unemployment= 9.75-.844 minimum wage. The R-sq value is 19.0%, and the R-sq(adj) value is 14.7%. This indicates a very feeble correlation. Increases in minimum wage predict increased unemployment 14.7% of the time. Basically, increases in minimum wage are a very inaccurate predictor for an increase in unemployment. The proposed minimum wage increase will have almost no effect on unemployment according to this model.

Raises in inflation have a very weak correlation to increased unemployment as well. The equation that models this fact is Unemployment= 9.30-.0227 CPI. The R-sq value is 23.6%, and the R-sq(adj) value is 19.6%. This indicates an increase of inflation predicts an increase of unemployment 19.6% of the time. This, again, is an inaccurate indicator. Increases in inflation have almost no effect on unemployment, as shown by the model.

These three relationships show a chain of events. When the minimum wage is increased, inflation will go up as well. This does not necessarily predict an increase in unemployment. An increase in inflation does not necessarily predict an increase in unemployment either. Basically, an increase in minimum wage will most likely predict an increase in inflation.