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The Effect of Minimum Wage on Labor Market

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Abstract

Unemployment, as one of the most important economic variables, is affected by various factors such as minimum wage, and setting the minimum wage is one of the key socio-economic indicators through which various goals in the economic and social fields can be achieved. The results of most studies suggest that raising the minimum wage reduces employment, while few studies show convincing evidence that raising the minimum wage increases employment. Given the contradictory results and the importance of knowing how the minimum wage affects unemployment in the formulation of policies and programs related to the labour market, this study examines the effect of the minimum wage on labour supply and demand and then measures its effect on unemployment according to the variables of GDP, fixed capital formation, total factor productivity (TFP), and consumption of Iranian provinces during 2006-2015. The results indicate that raising the minimum wage reduced unemployment in the studied years. Also, the application of different minimum wages in different provinces reduced labour market fluctuations.

Keywords: “unemployment”, “minimum wage”, “labour supply”, “labour demand”.