Week 5: Discussions

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University of North Carolina School of Social Work

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**Discussion 1**

**Q1.**

The demand for labor is called "derived" demand because it is contingent upon the consumers' demand for the products produced by the workers. The greater the demand for the goods and services by the consumers, the greater will be the demand for labor.

**Q2.**

According to the article, the labor market is tight at present. A tight market means greater demand for workers while workers are in a short supply. Companies like Amazon, Google and Apple are competing for workers. Due to increased demand for consumer goods, the labor market is near to hitting full employment.

**Q3.**

The firm wage is linked with the demand for workers, which in turn depends on consumers demand for the products these workers make. If companies are competing for workers, they may increase the wage in order to attract more workers. Although big firms possess the power to set wages themselves in normal circumstances, in a tight market they cannot resist pay rise. In the article, Allegretto implies that Amazon might be able to resist pay rise at 5 percent unemployment, but it would be compelled to raise the wages at unemployment below 4 percent. This also means that if unemployment remains at 5 percent, millions of workers would not be able to enjoy a wage-raise. For bigger firms, it takes more than a low employment rate to raise the wage. There also needs to be political pressure.

**Q4.**

Although the federal minimum wage is fixed at $7.25 per hour, Amazon self-imposed a minimum wage of $15 per hours. There are several explanations for this. Some of the higher labor costs will eventually come back to Amazon. This can be seen as Henry Ford's business model wherein the workers could afford the cars they made. Moreover, although the inflation rate is slow, the change will show up to some extent in the higher inflation in future. Moreover, Amazon intended to use its political influence in the future and ask the Congress to raise the federal minimum wage to $15 per hour. Therefore other businesses might be compelled in future to raise their minimum to $15 an hour.

**Q5.**

Although in many higher-wage states, workers already earn $15 or more per hour, in the lower-wage state it is a welcome step for the 350,000 employees of Amazon. Since Amazon intended to push the congress to increase the minimum wage, it would have a profound impact on the 160 million workers that constitute the total labor force. According to the author, this increase in labor cost might eventually end up in Amazon's coffers, so there may not be a decrease in Amazon's revenue. The impact on the companies is clear. Amazon is already competing for workers and now it will attract more workers. In a tight market, losing workers will have serious implications for other companies. However, the total number of worker in labor force is 160 million and Amazon can accommodate only 350,000. This means the workers of other companies will be feeling uncomfortable to see the difference in wage between their firm and Amazon. They might start their activism.

**Discussion 2**

**Q1.**

According to the public choice theory or idea, politicians have economic motives, and just like the rest of us, politicians too have the same regard to economic self-interest. An extension of this theory is that since politicians have economic motives like the rest of us, they may take bribes or receive donations for election campaigns from rent-seeking big businesses to legislate in their favor by introducing tariffs of imported products of international competitors or regulatory insight on domestic competitors.

Explain what rent-seeking is.

**Q2.**

Rent seeking is an effort by big businesses to acquire privileges. A business may be privileged by the politicians when they introduce tariffs on the international competitor's products imported into the country. It may be an effort to acquire subsidies. It may also involve lobbying to subject local competitors to negative privilege i.e. greater regulatory oversight. In this way, the lesser regulated business becomes privileged against the more regulated. Rent-seeking involves bribing politicians. But since bribes are considered un-Americans and there is a danger of FBI detecting it, the tactic of funding election campaigns is the more prevailing way of rent-seeking.

**Q3.**

On the one side, politicians are driven by economic motives, and on the other, big businesses practice rent-seeking in order to acquire privilege. Both these tendencies complement each other, and therefore politicians may readily acquire economic benefits such as bribes or donations for election campaigns from big businesses. Thus the politicians may keep taking economic benefits from businesses and, therefore, keep introducing regulations and tariffs in the favor of their colluded businesses. This may eventually lead to a highly regularized country (Game Theory).

**Q4.**

The example of ObamaCare provides an example of combining public choice and rent-seeking. One explanation for the Obama’s administration’s introduction of the ObamaCare is the rent-seeking by the Insurance Companies. The ObamaCare required the citizens to buy insurance. This meant that insurance companies would be getting a lot of consumers.