THE IMPlication OF MINIMUM WAGE REGULATION ON
EMPLOYMENT RATE IN SELECTED EUROPEAN COUNTRIES: A PANEL
DATA STUDY

By

RAIHAN RAMLI

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ABSTRAK

ABSTRACT

The role of minimum wage policy continues to be debated and experienced in the literature on international and human resources economies. This paper extends the previous empirical studies on the issues by providing some evidence from panel data studies from period 1999-2008 on working population of selected countries in Europe. In this study, the determine dependent variable is employment rate and to be tested with various of strong independent variables which represent labor supply and demand sides, together with institutional factor that contains minimum wage, labor participation with each level of educational attainment, labor productivity and strictness of employment protection. The econometric model has been defined by using Pooled Ordinary Least Square, Fixed Effects (FE), Random Effects (RE). In further extend Hausman Test (HT) test is needed to estimates random and fixed effects to check and analyze the impact of minimum wage on employment generally in Europe. The main conclusion of the study may be summarized as follows: i) minimum wage has had a positive impact on employment in Europe of year 1999-2008, ii) the adverse effect on working population are generally goes to labor with very least educational attainment and iii) there is some evidence that a uniform minimum wage may be particularly harmful to employment due other factors such as labor productivity and strictness of employment. Finally this paper draws some alternative policy implications for further studies to focus on the working population in Europe, to ensure the economic stability.
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# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labor Organizational</td>
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<tr>
<td>MW</td>
<td>Minimum Wage</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>MRPL</td>
<td>Marginal Revenue Product of Labor</td>
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<tr>
<td>EPL</td>
<td>Employment Protection Legislation</td>
</tr>
<tr>
<td>KILM</td>
<td>Key Indicator of the Labor Market</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Square</td>
</tr>
<tr>
<td>RE</td>
<td>Random Effect</td>
</tr>
<tr>
<td>FE</td>
<td>Fixed Effect</td>
</tr>
<tr>
<td>HT</td>
<td>Hausman Test</td>
</tr>
<tr>
<td>CLM</td>
<td>Classical Linear Model</td>
</tr>
<tr>
<td>BLUE</td>
<td>Best Linear Unbiased Estimation.</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background

A system of minimum wages comes along with other criterions of economic and social policy address to reduce pay differential for a standard decent living in some places. There are varieties of factors influence wages, but basically the more money you gain at jobs, the greater ability to afford living cost and meet the needs. Likewise, there are many other factors need taken into consideration before setting the wage like wage differential, elasticity of demand, political power and other impact as well as incentives to get jobs, wage equality and so on. Many countries in Europe operate statutory or collectively determined minimum wage rate. The rate of minimum wage is regularly adjusted to reflect developments in labor market. The amount is not necessarily to be updated every year, nor does an adjustment always result in wage increase. However, binding minimum wages are in place in several union and occupations. Based on 2013 data that has been updated by Eurostat, the highest minimum wage can be found in Luxembourg, starting in year 2012 with 1,290.21 euro monthly. It consistently increases on average 48.67 euro in each year within 12 years policy implementation. Countries like Netherlands, France, Belgium, Ireland and United Kingdom (UK) follow this ranking with wages more than
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REFERENCES


