Price and Demand: Cars and Labor

A basic principle from Economics 101 is that the downward sloping demand curve — the graph showing an inverse relationship between the price of something and the amount that people are willing and able to buy at that given price — works at all income levels and in both the market for goods and services and the market for labor.

The demand curve illustrates the fact that a price increase will generally produce less demand, fewer sales, all other things being equal.

Another fact, directly related to the aforementioned ability to pay, is that the super-rich are getting richer than ever and controlling an expanding share of the world's wealth. A January 2015 article in the *New York Times*, "Oxfam Study Finds Richest 1% Is Likely to Control Half of Global Wealth by 2016," reports from the Oxfam study that the "80 wealthiest people in the world altogether own $1.9 trillion, nearly the same amount shared by the 3.5 billion people who occupy the bottom half of the world's income scale. And the richest 1 percent of the population, who number in the millions, control nearly half of the world's total wealth, a share that is also increasing."

At the other end of the income scale, Oxfam's executive director noted that more than a billion people in the world are living on less than $1.25 a day.

Nevertheless, regardless of income level, the demand curve remains applicable in illustrating the inverse relationship between price and demand, even among those at the very pinnacle of the income pyramid because there is still a finite amount of money at the apex and an enduring propensity to compare costs and benefits.

At the top of the market for luxury automobiles, cars, for instance, a doubling of the price of a new Rolls-Royce Phantom Coupe Drophead (Brit-speak for a convertible) from its current $539,775 price to $1,079,550 is likely to produce a significant drop in sales, just as the doubling of the price of an egg sandwich at a fast food window from $2.79 to $5.58 is likely to produce a major drop in sales.

As a footnote on wealth and luxury car sales, Rolls-Royce reported in January 2015 that the company was celebrating its fifth successive sales record, with sales in 2014 up 12 percent over the previous year and the United States being the company's biggest national market.

Still, as illustrated by the demand curve, it can be expected that the Rolls-Royce sales growth would be lowered or reversed if the company doubled its prices.

In the same way, applied to the labor market, the current debate is focused on whether an increase in the minimum wage to $9.00 or $10.10, or doubling to $15 per hour, would produce job losses.

"They've dropped the bill for the $15 minimum wage on the table, and guess who's paying?," asked Carlos Gazitua, CEO of Sergio's Restaurants, the nation's first Cuban restaurant franchise, in his recent commentary in the *Miami Herald*. "Recently, we learned the consequences of Seattle's $15 minimum wage: A net loss of 1,300 jobs for area restaurants, which employ about half of its minimum wage workers, over the first half of the year."

Concluded Gazitua, citing an official federal study's estimates of job losses due to minimum wage hikes: "In 2013, the nonpartisan Congressional Budget Office estimated that 500,000 jobs would be lost with a national minimum-wage increase to $10.10. Of course, a $15 minimum wage kills even more jobs. And you don't need an economics degree to understand why."

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