

Global Market Desirability of Minimum Wages

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Abstract

We develop a two-country general equilibrium model with monopolistic competition and heterogeneous firms to examine the global desirability of minimum wages. Unlike the canonical closed-economy setting, trade openness introduces both within-firm and cross-market distortions. We show that a low minimum wage can improve national and global welfare by mitigating excessive markups and correcting labor misallocation, provided trade freeness is limited and product demand is strong. However, excessively high minimum wages reduce variety, distort firm selection, and harm welfare in both countries. Our results clarify the conditions under which minimum wages enhance efficiency in an open economy.

Keywords: minimum wage, trade, market distortions, welfare

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