

Positive and Normative Economics in Practice

A real-life application using California's \$20 fast-food minimum wage

Supplemental reading and classroom activity for Chapter 1: Introduction to Economics

Student Reading Before Class: Read Jaimie Ding's Associated Press article, "*California fast food workers now earn \$20 per hour. Franchisees are responding by cutting hours.*"¹ As you read, mark each sentence that makes a factual claim, a prediction, or a value judgment.

This is the URL for the Associated Press article. If you are not able to click on the article, copy and paste the URL into your browser address bar: <https://apnews.com/article/california-mcdonalds-wendys-fast-food-minimum-wage-59dde9b19e411279f744e44439872c7a>

Plagiarism note: This handout summarizes the case in original language and cites sources. Students should not copy article wording into their answers. Use your own words and cite the article when reporting facts from it.

Purpose of This Application

Positive and normative economics are easy to define but harder to use well. A student can memorize that positive economics deals with what is and normative economics deals with what ought to be, yet still mix facts, predictions, and value judgments in the same sentence. The goal of this exercise is to slow that process down.

The California fast-food minimum wage case is useful because it contains all the pieces students need to practice economic reasoning: a policy change, workers who gain higher hourly pay, business owners who face higher labor costs, consumers who may face higher prices, and economists who must separate short-run observations from long-run effects.

By the end of this handout, you should be able to identify positive claims, identify normative claims, explain why some statements contain both, and write a policy paragraph that separates evidence from judgment.

1. The Basic Distinction

Economists use the positive/normative distinction to keep two different kinds of reasoning from being confused. **Positive economics** asks questions that can be tested against evidence: What happened? What is likely to happen? How large is the effect? Who gains and who loses? **Normative economics** asks questions that require value judgments: What should policy be? Which goal should matter most? How should gains and losses be weighed?²

This distinction does not mean that positive economics is important and normative economics is unimportant. Good policy analysis usually needs both. Positive economics helps clarify consequences. Normative

¹ Jaimie Ding, "California Fast Food Workers Now Earn \$20 per Hour. Franchisees Are Responding by Cutting Hours," *Associated Press*, July 9, 2024, <https://apnews.com/article/california-mcdonalds-wendys-fast-food-minimum-wage-59dde9b19e411279f744e44439872c7a>.

² OpenStax, *Principles of Economics 3e* (Houston: OpenStax, 2023), ch. 2, "Key Concepts and Summary," <https://openstax.org/books/principles-economics-3e/pages/2-key-concepts-and-summary>.

economics helps decide what society should do after those consequences are understood. Milton Friedman described positive economics as a way to produce meaningful predictions about economic phenomena, while older definitions of economics emphasized that scarcity forces people to choose among competing ends.³

Quick Comparison

Kind of statement	Main question	Minimum-wage example
Positive	What is true, or what is likely to happen?	A \$20 wage floor raises hourly pay for covered fast-food workers.
Positive	What effect can be tested?	Some restaurants may reduce hours, raise prices, automate, or accept lower profits.
Normative	What ought to be done?	The state should require a living wage even if some prices rise.
Mixed	Where do evidence and values appear together?	Because some workers will earn more, the policy is worth the cost.

2. The Real-Life Case: California's Fast-Food Wage Law

California increased the minimum wage for many fast-food workers from \$16 to \$20 per hour beginning April 1, 2024. The AP article reports several responses from businesses and workers: some owners reduced hours, raised menu prices, or worried about operating costs; some workers reported that higher pay helped them meet bills, save money, or spend more time with family; and early industry data were not yet enough to settle the long-run employment question.⁴

This case is more useful than a simple textbook example because the policy has several possible effects at once. Higher hourly wages can increase income for workers who keep their hours. Higher labor costs can put pressure on prices, profits, staffing, hours, and investment in technology. Consumers may respond to higher prices by buying less. Employers may respond by cutting overtime, reducing staffing per shift, or improving productivity. Workers may respond by staying longer in jobs if higher pay reduces turnover.

That complexity is exactly why the positive/normative distinction matters. A student who supports the wage increase may focus on income security and fairness. A student who opposes it may focus on job loss, prices, and pressure on smaller franchise operators. Both students still need to make positive claims carefully and distinguish those claims from moral or political judgments.

3. How Positive Economics Would Study This Case

A positive economic analysis would not begin by asking whether the policy is good or bad. It would begin by identifying measurable outcomes. Important outcomes include hourly wages, weekly earnings, hours worked, number of employees, employee turnover, menu prices, store closures, customer traffic, profits, and adoption of labor-saving technology.

The hardest issue is causation. If employment changes after the law, that does not automatically prove the wage law caused the change. Restaurants may also be affected by rent, food prices, consumer spending, population changes, interest rates, or local business conditions. A good study therefore compares affected

³ Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953), 3-43; Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, 2nd ed. (London: Macmillan, 1935), 16.

⁴ Ding, "California Fast Food Workers Now Earn \$20 per Hour." The article reports the wage change, firm responses such as reduced hours and price increases, and worker experiences under the new law.

businesses with a reasonable control group and tries to isolate the effect of the policy from other changes happening at the same time.

This is why the famous Card and Krueger study of New Jersey and Pennsylvania fast-food restaurants became important in labor economics. New Jersey raised its minimum wage while neighboring Pennsylvania did not, allowing the authors to compare changes across similar fast-food restaurants before and after the policy change. Their findings challenged the simple prediction that a minimum-wage increase must reduce employment.⁵

Later research did not end the debate. Some reviews find that minimum wages often raise earnings for low-paid workers with small or muted employment effects; other reviews argue that the broader evidence points more strongly toward adverse employment effects, especially for groups or sectors where the wage floor is highly binding.⁶ The key classroom lesson is not that one side of the debate can be dismissed. The lesson is that positive claims require careful evidence and careful research design.

Positive Questions Students Should Ask

Positive question	Evidence needed	Why it matters
Did weekly earnings rise?	Hourly wage, hours worked, and total weekly pay	A higher hourly wage does not guarantee higher total income if hours fall sharply.
Did employment fall?	Employment before and after the law, compared with a control group	Anecdotes about one store do not prove the statewide effect.
Did prices rise?	Menu prices before and after, compared with similar restaurants not affected	Price pass-through shows who bears part of the cost.
Did businesses adjust in other ways?	Hours, staffing levels, automation, turnover, service speed, closures	Employment is not the only margin of adjustment.
Who gained and who lost?	Distribution of wages, hours, prices, and profits across groups	Policy effects can be unequal even when averages look small.

4. How Normative Economics Enters the Debate

Once the likely effects are studied, society still has to decide how to weigh them. That is where normative economics enters. Normative reasoning cannot be avoided because policy choices involve priorities: income security versus low consumer prices, worker bargaining power versus employer flexibility, short-run costs versus long-run fairness, and help for covered workers versus effects on workers who may lose hours.

Consider two people who agree on the same positive forecast: suppose both believe the wage increase will raise income for many covered workers, raise some prices, and reduce hours for some employees. One person may still support the policy because the gains for low-wage workers are considered morally more important than modest price increases. Another may oppose the policy because even a small risk of job loss for vulnerable workers is considered unacceptable. Their disagreement is not only about facts. It is also about how to rank social goals.

The Congressional Budget Office makes this tradeoff visible in national minimum-wage analysis. CBO has reported that raising the federal minimum wage would increase earnings and family income for many low-

⁵ David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review* 84, no. 4 (1994): 772-793; NBER working paper version, <https://www.nber.org/papers/w4509>.

⁶ Arindrajit Dube, *Impacts of Minimum Wages: Review of the International Evidence* (London: Department for Business, Energy and Industrial Strategy, 2019); Doruk Cengiz et al., "The Effect of Minimum Wages on Low-Wage Jobs," *Quarterly Journal of Economics* 134, no. 3 (2019): 1405-1454; David Neumark, "Myth or Measurement: What Does the New Minimum Wage Research Say about Minimum Wages and Job Loss in the United States?" NBER Working Paper no. 28388, 2021.

wage workers while causing some other low-wage workers to lose jobs and income.⁷ CBO's statement is positive analysis: it estimates likely effects. Whether those effects are worth the policy is a normative judgment.

5. Practice: Classify the Claims

For each statement below, decide whether it is positive, normative, or mixed. Then explain your classification in one or two sentences.

1. California's law raised the covered fast-food wage from \$16 to \$20 per hour.
2. Some franchise owners responded to higher labor costs by reducing hours or raising prices.
3. The state should protect low-wage workers even if some businesses face higher costs.
4. If menu prices rise, some customers may reduce purchases.
5. Because fast-food workers need a living wage, the policy is justified.
6. The policy is harmful if it reduces weekly hours enough to offset the higher wage.
7. A good evaluation should compare affected restaurants with similar unaffected restaurants.
8. Higher wages may reduce turnover and attract better job applicants.
9. The policy should be judged mainly by its effect on the poorest households.
10. The policy is successful if total worker earnings rise without large employment losses.

6. Writing a Strong Policy Paragraph

A strong policy paragraph should not hide the normative judgment inside a factual sentence. It should separate the two parts of the argument. First, state the positive claim and the evidence you would need to test it. Then state the value judgment that leads to your recommendation.

Weak version: *The wage increase is good because it helps workers.*

Stronger version: *The wage increase may raise hourly earnings for covered workers, but the total effect on weekly income depends on whether hours fall. If the evidence shows that most covered workers earn more per week and job losses are limited, I would support the policy because I place greater weight on improving low-wage workers' income security than on modest price increases for consumers.*

The stronger version is better because it makes the positive claim testable and then openly states the normative value judgment. That is the habit students should practice throughout macroeconomics.

7. Common Mistakes to Avoid

- **Confusing anecdote with evidence.** A single store cutting hours is important, but it does not prove the statewide effect.
- **Treating a prediction as a value judgment.** The claim that employment will fall is positive because it can be tested, even if people disagree about it.
- **Treating a value judgment as a fact.** The claim that society should guarantee a living wage depends on values about fairness, dignity, and distribution.
- **Ignoring tradeoffs.** A policy can help one group and hurt another; serious analysis names both.

⁷ Congressional Budget Office, *The Effects on Employment and Family Income of Increasing the Federal Minimum Wage* (Washington, DC: Congressional Budget Office, July 2019), <https://www.cbo.gov/publication/55410>; Congressional Budget Office, *The Budgetary Effects of the Raise the Wage Act of 2021* (Washington, DC: Congressional Budget Office, February 2021), <https://www.cbo.gov/publication/56975>.

- **Thinking normative means emotional or irrational.** Normative reasoning can be careful and principled, but it still depends on values.

Critical Thinking Questions

1. In the AP article, identify two positive claims and two normative claims. For each positive claim, explain what evidence would be needed to test it.
2. Suppose the wage increase raises hourly pay but reduces hours for some workers. What additional information would you need before deciding whether covered workers are better off overall?
3. Who are the main stakeholders in this case - workers, franchise owners, customers, large corporations, taxpayers, or others? Which stakeholders should receive the most weight in policy decisions, and why?
4. How could a researcher design a study to estimate the effect of California's law on employment and prices? What would make a good comparison group?
5. Write one paragraph giving your own policy judgment on the law. Your paragraph must include at least one positive claim, at least one normative claim, and a clear sentence showing where the argument shifts from evidence to values.

Optional Instructor Use

This handout works well as a short in-class application after students have read the Chapter 1 section on positive and normative economics. One practical approach is to have students read the AP article before class, then spend ten minutes classifying claims individually. Afterward, students can compare answers in pairs and revise one mixed statement into two separate sentences: one positive and one normative.

For grading, emphasize classification and explanation rather than agreement with a particular policy position. Students should be rewarded for separating evidence from values, identifying tradeoffs, and explaining what additional evidence would be needed.

Selected Bibliography

Card, David, and Alan B. Krueger. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *American Economic Review* 84, no. 4 (1994): 772-793.

Cengiz, Doruk, Arindrajit Dube, Attila Lindner, and Ben Zipperer. "The Effect of Minimum Wages on Low-Wage Jobs." *Quarterly Journal of Economics* 134, no. 3 (2019): 1405-1454.

Congressional Budget Office. *The Effects on Employment and Family Income of Increasing the Federal Minimum Wage*. Washington, DC: Congressional Budget Office, July 2019.

Ding, Jaimie. "California Fast Food Workers Now Earn \$20 per Hour. Franchisees Are Responding by Cutting Hours." *Associated Press*, July 9, 2024.

Dube, Arindrajit. *Impacts of Minimum Wages: Review of the International Evidence*. London: Department for Business, Energy and Industrial Strategy, 2019.

Friedman, Milton. *Essays in Positive Economics*. Chicago: University of Chicago Press, 1953.

Neumark, David. "Myth or Measurement: What Does the New Minimum Wage Research Say about Minimum Wages and Job Loss in the United States?" NBER Working Paper no. 28388, 2021.

OpenStax. *Principles of Economics* 3e. Houston: OpenStax, 2023.

Robbins, Lionel. *An Essay on the Nature and Significance of Economic Science*. 2nd ed. London: Macmillan, 1935.