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**THE EFFECTS OF MINIMUM WAGE
LEGISLATION ON COMPANY
DECISION-MAKING:
THE CASE OF THE *HOTEL AND RESTAURANT*
SECTOR IN LITHUANIA**

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**The Effects of Minimum Wage Legislation on Company
Decision-making:
The Case of the *Hotel and Restaurant* Sector in Lithuania**

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ABSTRACT

This paper examines how minimum wage legislation affects the level of unemployment in the *Hotel and Restaurant* sector in Lithuania. After examining several theoretical models, hypotheses and previous research papers, the authors identified several additional areas that may be potentially affected by the minimum wage legislation. The survey research method was used to find out how and to what extent the increase in statutory minimum wage in Lithuania affects the level of unemployment as well as other identified areas in the *Hotel and Restaurant* sector. The effects of minimum wage legislation on company decision-making were analysed. Analysis of survey results has showed that the companies in the *Hotel and Restaurant* sector are relatively prepared for the planned increase in the statutory minimum wage and existing legislation has only a minor effect on companies' employment and other decisions. Nevertheless, the authors have suggested that the government should reconsider the issue of increased tax burden associated with such legislation.

I. INTRODUCTION

In Lithuania, as well as in most other countries that recently joined the European Union, the minimum wage has been considerably increased during recent years and there are plans to raise it further. The minimum wage was increased in the years 1997, 1998, 2003 and 2004, and there is an ongoing discussion about further increases (“Labour”, 2003, “Dėl minimaliojo darbo užmokesčio didinimo“, 2004). The situation is similar in all the Baltic States. The monthly minimum wage in Latvia has been raised even more frequently (five times since 1998), and the government plans to increase it up to 50% of the average gross monthly wage in the upcoming years (Karnite, 2004). In Estonia, according to an agreement signed between employers and the trade union, the minimum wage has to be increased up to 41% of the average wage by 2008 (Hinnosaar and Room, 2003, 3). Other EU acceding countries have also experienced the same upward trend in the level of minimum wages (Eriksson and Pytlikova, 2002, 2).

Unsurprisingly, these legislative steps generated a discussion among economists about the impact of increase in the statutory minimum wage on the level of unemployment. The main questions are whether the minimum wage should be increased further and how minimum wage legislation affects companies and their strategic decisions. There are certain benefits and costs associated with wage laws. The benefits include reduction of low-paid work, which can be seen as unfair and exploitative, stimulating capital-intensive instead of labour-intensive industries, and encouraging those who would normally do low-paid jobs to return to educational institutions (“Minimum Wage”, 2004). However, minimum wages might increase unemployment, as it is more difficult to find a job for people with little work experience and low education due to the fact that employers are not willing to hire a person if the marginal product created by him/her is lower than marginal costs. The effects of wage laws have been discussed among economists for a number of years already. Traditionally it was agreed that there should be as little regulation concerning minimum wages as possible, as costs generally exceed benefits. However, several studies have challenged this view. The most famous is the paper written by David Card and Alan Krueger, who had found that there are no negative employment consequences as a result of changes in the minimal wage level (1993, 34).

The impact of minimum wage legislation on the level of unemployment is not the only effect on the economy. When the government increases the statutory minimum wage,

companies have to neutralize somehow the increased labour costs. The means to neutralize these negative consequences used by companies, in case the government does not provide any compensation, could be (e.g.) investing less in fixed assets and employee training, paying more “in envelopes”, decreasing wages of other employees.

The most widely discussed and researched effect of the minimum wage is that on the level of unemployment. Most research, however, was done in the US and in western European countries (e.g. Neumark and Wascher, 2003). There is little empirical evidence about the actual consequences of the changes in the level of the minimum wage in Central and Eastern European countries (CEEC), though recently econometrical studies analyzing the impact of minimum wage legislation on unemployment were conducted in the Czech Republic, Slovakia, Hungary, and Estonia. In Lithuania, the research done by the Institute of Social Work and Surveys examined the effects of minimum wage legislation on the number of bankruptcies and profitability of companies (Šileika et al., 2004). However, no effects on decisions of companies (such as employment reduction, decreasing investments, violations of labour law, increasing wages of other employees) were analyzed. This paper aims to review the development of minimum wage legislation in Lithuania and to examine the possible effects of legislation on Lithuanian companies, focusing on the *Hotel and Restaurant* sector. The research question, therefore, is **what impact the minimum wage legislation in Lithuania has on company decision-making in the *Hotel and Restaurant* sector.**

This paper is structured in the following way. The second part discusses the theory concerning the economic consequences of minimum wage legislation and reviews previous research. The third part gives an overview of the development of minimum wage legislation in Lithuania compared to other CEEC and analyzes how employment in Lithuania is likely to be affected by the minimum wage legislation. The fourth part presents the methodology used in this paper to analyze the effects of minimum wage legislation on Lithuanian companies' decision-making. In the fifth part, the authors present the empirical findings about the minimum wage impact on Lithuanian company decision-making. The last part provides suggestions regarding alternatives to minimum wage increase, and concludes.

II. REVIEW OF LITERATURE

2.1 Impact of Minimum Wage on Labour Market: Discussion of Theory

There are several models that predict the economic consequences of minimum wage laws. Some models are briefly reviewed below.

2.1.1 The Perfectly Competitive Model

In this simple perfectly competitive model, there are many identical firms and homogeneously skilled workers. The uniform minimum wage level is set to all employees and each firm is too small to affect the equilibrium wage. The firm maximizes its profit $\pi = R(L) - w * L$, where R is the revenue depending on the amount of labour employed L and w is the exogenously determined wage rate. A profit-maximizing firm hires labour up to the point where marginal revenue equals marginal costs. In this perfectly competitive model, every firm faces a downward sloping marginal revenue curve (MR) and a horizontal marginal cost curve (MC). When the minimum wage (w_m) is set exogenously above the equilibrium wage level, the increase in marginal costs leads to a new equilibrium level. The new equilibrium level results in a lower employment level ($L_m < L^*$) (see Figure 1 below).

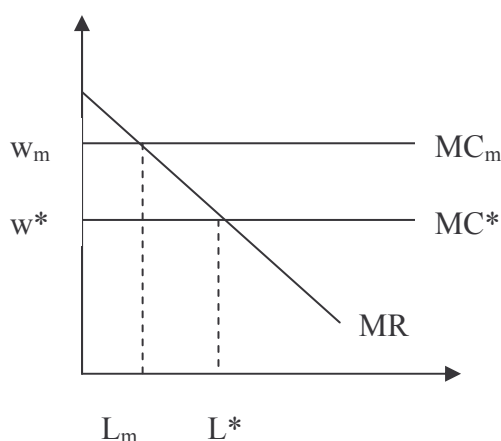


Figure 1. Perfectly competitive model.

Source: Hinnosaar and Room, 2003.

As argued above, in this model, imposing a binding minimum wage reduces employment. The magnitude of the effects on employment in the whole economy depends on the slope of the labour demand curve.

2.1.2 Two-Sector Model

In this model, minimum wage is effective only in one part of the labour market but does not affect the other part. The sector in which minimum wage is imposed (the covered sector), experiences a decrease in labour demand and a fall in employment level, as predicted by the model described above. Employees who lose their jobs move to the other part of the labour market (uncovered sector). At the same time, a more qualified labour force from the uncovered sector would move to the covered sector, where they can get higher wages. As argued by Welch, when the labour force from covered sector moves to the uncovered after a

minimum wage is set above w_0 , the labour supply in the uncovered sector would increase ($S(w_0) \rightarrow S(w_U)$) (qtd in Hinnosaar and Room, 2003, 11). This would result in a lower wage rate ($w_0 \rightarrow w_U$) and increased employment in the uncovered sector ($L_0 \rightarrow L_U$) (see Figure 2).

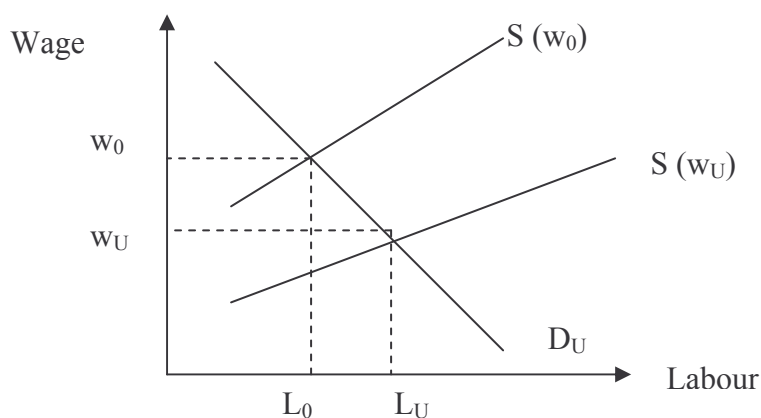


Figure 2. The two-sector model.

Source: Hinnosaar and Room, 2003.

As suggested by Hinnosaar and Room, “in a developing-country context, the uncovered sector usually refers to the informal economy” (2003, 12). This means that when a minimum wage is imposed, the labour supply in the shadow economy increases. In 2003, officially there were 3.6% employees working for less than the statutory minimum wage in Lithuania (Lietuvos Statistikos Departamentas). The real numbers could be much higher, as it is hard to collect this kind of statistical data. It should be noted that the existence of a shadow economy in Lithuania may bias the results of any kind of empirical research that uses standard statistical data, since an increase in the statutory minimum wage may not increase the unemployment level due to the lack of enforcement of regulations.

2.1.3 Heterogeneous Labour Force Model

The Heterogeneous Labour Force Model takes into account the fact that workers have different qualifications and, therefore, this model is more realistic than the Perfectly Competitive Model. Employees with heterogeneous skills are differently affected by an increase in minimum wage. The low-skilled labour force is mostly affected by such increase, as its productivity is low. When the labour costs for an economic entity are increased, it seeks alternative production factors to substitute the low-skilled employees. There are mainly two possibilities. The economic entity can substitute low-skilled labour by capital and in this way reduce overall unemployment or it could substitute it by more qualified labour.

According to Brown, there are several possible effects of minimum wage increase on the level of employment in a heterogeneous labour force market. After an increase in the

minimum wage, those who used to get minimum wages could either be laid off or their wages could be increased to the new statutory minimum wage. Demand for the labour force that used to get a somewhat higher wage than the statutory minimum wage increases. Those who used to get even higher wages are also indirectly affected but the impact is small (1999).

2.1.4 Monopsony Model

the monopsony model, to the contrary of the above two models, predicts that a higher statutory minimum wage increases the level of employment. The monopsony model, as the perfectly competitive model, assumes that the labour force is homogeneous; however, here the employer has enough power to set the wage rate. Therefore, the profit maximizing function is $\pi = R(L) - w(L)*L$, where R is revenue and w is wage, both depending on the amount of labour employed L .

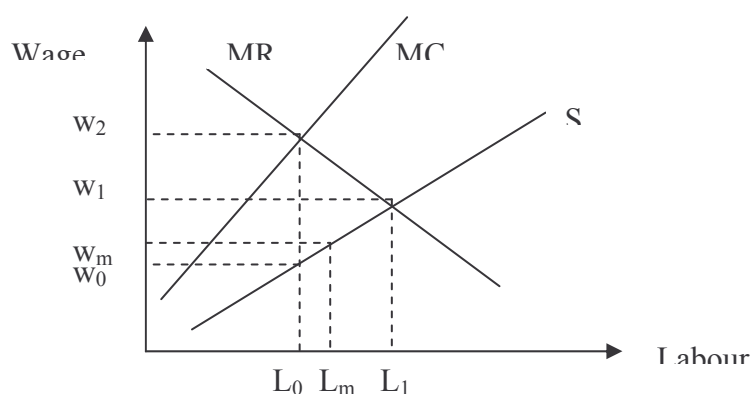


Figure 3. Monopsony model.

Source: Hinno Saar and Room, 2003.

Figure 3 shows that unrestricted profit-maximizing monopsony would hire labour up to the point where marginal revenue equals marginal costs (L_0) and would pay wages equal to w_0 . The competitive wage and employment levels are w_1 and L_1 respectively. If the minimum wage rate is set between the monopsony wage w_0 and the competitive wage w_1 , then the employment level would increase. It would increase up to the point where the competitive wage rate w_1 is reached. If the minimum wage is increased further, employment would start to decrease; however, it still would be higher than in the unrestricted monopsony case until the minimum wage reaches w_2 .

How much the minimum wage can be increased until employment starts decreasing depends on the labour supply. The more inelastic the labour supply (the steeper the labour supply curve), the more the minimum wage can be increased.

Most economists think that monopsony is rare nowadays in richer countries; however, according to Alan Manning's book, this kind of market is common in labour markets (qtd in "Minimum Wage", 2004).

2.1.5 Efficiency Wage Hypothesis

One more model, which is called the **efficiency wage hypothesis**, states that higher wages increase the productivity of the workers. It assumes that higher wages reduce employee turnover, increase efforts of employees, prevent collective action, and attract more qualified employees (Katz, 1986). Moreover, employees should be more willing to develop their skills if they get higher wages and employers should be more willing to invest in their workers. This hypothesis suggests employers paying more for their employees than the market-clearing wage, as the costs associated with increase in wages will be paid off by the increase in productivity.

2.1.6 Wage Effects Hypothesis

The main aim of minimum wage laws is to reduce the distribution of wages. In other words, employers are expected to react to minimum wage legislation by increasing the wages of employees getting the lowest salaries without changing the wages of those who used to get more. However, some economists argue that the wages of the latter are also likely to be increased, as wage differences should reflect differences in productivity. As a result, if the minimum wage was increased, the wages of those employees who used to get more than the minimum wage should be increased accordingly. On the other hand, companies should try to neutralize the effects of minimum wage legislation by decreasing the wages of other employees.

2.1.7 Price Effects Hypothesis

This hypothesis predicts that companies would pass increased costs on to customers by increasing prices. If employment is given, companies are likely to pass on the costs to the customers. This hypothesis has not been researched very extensively in the literature; however, some research has been done (this is discussed in the section "Review of Previous Research").

2.1.8 Summary of Discussion of Theory

To summarize, minimum wage legislation may have contradicting economic consequences. There are four major positive effects:

- ensuring a reasonable standard of living for low-skilled or inexperienced workers;

- making wage distribution more equal (Wage Effects Hypothesis) and reducing the gap between rich and poor;
- stimulating capital- rather than labour-intensive industries (Heterogeneous Labour Force Model);
- encouraging low-paid workers to return to educational institutions.

However, there are certain costs of minimum wage legislation. These include:

- disturbing the demand and supply in the economy (Perfectly Competitive Model);
- increasing costs for economic entities and, therefore, could be a stimulator of the shadow economy (as predicted by Two-Sector model);
- not uniformly affecting the labour force: the biggest negative impact is on the employment of low-skilled and inexperienced workers (especially youth) whose welfare is meant to be improved by the legislation (see Heterogeneous Labour Force Model);
- the costs incurred by companies might be passed on to customers (as predicted by Price Effects Hypothesis) and thus the real purchasing power of money might be reduced;
- minimum wage legislation may be used as a way to increase tax revenues and reduce budget deficit for the government. For example, in Lithuania, if the minimum wage is increased by LTL 100, the costs of the company increase by LTL 131 per employee (LTL 100 + 31% social taxes). An employee gets only LTL 67 (income and social taxes are deducted). This shows that every company has to face an increase per person not of LTL 100 but of LTL 131. Almost half of the costs of the company

(LTL

64) go to the state budget.

As theoretical models predict different effects of minimum wage legislation, empirical findings are needed. The most important and influential researches are reviewed in the next section.

2.2 Review of Previous Research

In empirical works, the most analyzed consequence of minimal wage increase is that on the level of unemployment. These studies usually focus on a specific labour group, which is most affected by the increase in minimum wages, such as youth, low-wage, or unskilled workers, or employees in a specific low-wage industry (for instance, the fast-food industry in the US) (Hinnosaar and Room, 2003, 15).

At the centre of the US debate concerning the impact of minimum wages on the level of unemployment is the research done by David Card and Alan Krueger. They analyzed the unemployment effects in the fast-food industry in New Jersey after the minimum wage increase in 1992. It was found that unemployment was *not* affected after the increase in the minimum wage (Card and Krueger, 1992).

However, their conclusions were challenged by several papers published later. One of the most famous is a paper written by David Neumark and William Wascher, who analyzed the same case of New Jersey but used, as they argued, better data and methods. The opposite conclusion was made – employment decreased (Neumark and Wascher, 1995). Moreover, even if the results of Card and Krueger are accurate, their validity might be the result of strong political forces in the US: the minimum wage is relatively very low in the country; therefore, it has very small negative effects on unemployment (“Minimum Wage”, 2004). The results in Europe might be more consistent, as the minimum wage rate here is much higher.

Following the results in the US, there have been several studies conducted in European countries. The results, just as in the US, differ. Most of them analyzed the effects on minimum wage legislation in a particular country (e.g. Abowd, 1997, Hinnosaar and Room, 2003). There also have been a few studies that look at the variation between the unemployment level and minimum wages across countries in order to estimate minimum wage effect. The OECD study (1998) showed the negative and statistically significant effects of minimum wages on unemployment of teenagers (Neumark and Wascher, 2003, 3). Another study using data from 17 OECD countries over 25 years done by Neumark and Wascher approves the results (Neumark and Wascher, 2003, 19).

Most of these studies were made in the US or in Western European countries. There were only a few researches done in CEE countries. In Estonia, using micro-level data it was found that a minimum wage increase leads to employment reduction for the group of workers who are directly affected by this change and that the rate of compliance with the regulation diminishes (Hinnosaar and Room, 2003, 1). A study in the Czech and Slovak Republics found the effects of minimum wage increase mixed, though no clear negative influences were observed (Eriksson and Pytlikova, 2002, 11). The empirical evidence from Hungary shows that minimum wage increase has significant negative impact on employment (Kertesi and Kollo, 2002). In Lithuania, before increasing the minimum wage further, the Institute of Work and Social Surveys conducted a research analyzing the effects on minimum wage increase on the number of bankruptcies and the profitability of companies in Lithuania. No

negative influences were found (Šileika et al., 2004); however, the survey did not examine effects on employment and other important factors.

If minimum wage legislation does not directly affect unemployment, it might affect the number of hours worked. The literature in this area is not as extensive as analyzing the impact of unemployment. Zavodny (1999) and Linneman (1982) find that working hours increase after an increase in minimum wage level, which can be explained by the fact that employees have to work more in order to offset the general unemployment effect (qtd in Gindling and Terrell, 2004, 5). However, Neumark, Schweitzer, and Wascher find that working hours decrease, which is just a different form of increasing unemployment (1999, 1).

There were several researches done analyzing other than that on unemployment economic consequences of minimum wage legislation. In order to test the Wage Effects Hypothesis, several studies analyzed the extent of the spillover effects of minimum wage legislation. For instance, Brown (1999) using limited evidence from the US concludes that the wages of those who used to get more than the minimum wage are increased as a result of minimum wage legislation, though this effect does not go deep into wage distribution, i.e., it impacts only those who used to get not substantially more than the previously set minimum wage level (qtd in Gindling and Terrell, 2004, 5). The findings of Neumark, Schweitzer, and Wascher are similar: workers initially earning near the minimum wage are more affected than those earning substantially more (1999, 1). Several more researches examining the effect on wage distribution were done in South America (e.g. Maloney and Mendez, 2003, Fajnzylber, 2001). The results of these researches are compatible.

The literature on price effects of minimum wage legislation is scarce. For instance, Brown (1999) and Card and Krueger (1995) find that there is a price effect of minimum wage legislation in the US; however, the effect is minor (qtd in Lemos, 2004a, 2). While examining the economy of Brazil, Lemos expects the effect to be more substantial, as there are many more employees working for the minimum wage in Brazil than in the US. The results suggest that the “minimum wage significantly increases overall prices in Brazil” (2004a, 16).

The above effects were not researched in Lithuania or in other Baltic countries. Before analyzing the impact of minimum wage legislation in Lithuania, the authors review the development of the minimum wage and the general situation in the country.

III. MINIMUM WAGE IN LITHUANIA

3.1 Development of Minimum Wage Legislation in Lithuania

This section reviews the development of the minimum wage in Lithuania and compares it with CEE countries as well as other European Union Member States.

Lithuania set a statutory minimum wage as early as 1994. Table 1 below illustrates the development of the minimum wage since 1994.

Table 1. Development of minimum wage in Lithuania, 1994-2004.

LITHUANIA											
Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Date when minimum wage was increased			01.09.96	01.02.97	01.06.98					01.09.03	01.05.04
Minimum wage, in LTL ¹	55	55	300/210	400/210	430	430	430	430	430	450/430	500
Average wage, in LTL	325	481	618	778	930	987	971	982	1014	1073	1261
Minimum wage / Average wage ratio	16.92%	11.43%	48.54%	51.41%	46.24%	43.57%	44.28%	43.79%	42.41%	41.94%	39.65%
Increase in nominal minimum wage, %		0.00%	81.67%	25.00%	6.98%	0.00%	0.00%	0.00%	0.00%	4.44%	10.00%
Change in real minimum wage, % ²		-45.10%	45.97%	11.90%	-1.42%	-2.40%	-0.30%	-1.40%	-2.00%	5.44%	11.30%

Sources: [Lietuvos Respublikos Seimas](#), [Lietuvos Statistikos Departamentas](#), [EIRO Online](#), authors' calculations.

As can be observed from the table above, the minimum wage in Lithuania has been increased five times since 1994. The minimum wage/average wage ratio has always been considerably high. It peaked in 1997 and has continually been decreasing since then and at the moment is about 40%. For comparison, the ratio in Latvia has not changed so much and has been around 35% since 1999; in Estonia, it has been less than 30% for a long time (Hinnosaar and Room, 2003, 31).

The minimum wage/average wage ratio in Lithuania has been and still is the highest in the Baltic States, and the Lithuanian government is planning further increases in the statutory minimum wage. In general, there is a tendency to increase the statutory minimum wage in all three Baltic States. The Latvian government has adopted a plan to increase the ratio up to 50% by 2010 and in Estonia there are plans to increase the minimum wage up to 41% of average wage by 2008.

The ratios of minimum wage as a percentage of the average wage in the old EU member states and in the CEE countries are similar. According to the data of Mermet (2002),

¹ In 1996, 1997 and in 2003 existed a differentiation of minimum wage in Lithuania. The lower minimum wage (210 Lt in 1996 and 1997, 430 Lt in 2003) was approved for agricultural sectors with specific characteristics

² The real change in the minimum wage is calculated by subtracting the change in consumer price index (as compared to previous period) from the change in the nominal minimum wage.

this ratio in 2002 in the old EU member states ranged from 34% in Spain to 57% in Portugal (qtd in Room, 2004). In CEE countries this ratio was between 30% in Estonia and 54% in Slovenia. In Lithuania, as can be seen in Table 1 above, this ratio was 42,4% in 2002.

The newly accepted EU member states have relatively small absolute levels of minimum wages as compared to the EU 15³ average. Lithuania is among those having the smallest minimum wages. However, taking into consideration the purchasing power of money, the differences among the countries significantly decreases. Yet the average minimum wage in CEE countries (adjusted for PPP) still remains almost 3 times lower than the average of the old EU member states (Paternoster, 2004).

3.2 The Possible Impact of Minimum Wage on Employment

The minimum wage/average wage ratio is not the best measure predicting the results of minimum wage increase on the labour market. In order to estimate how employment is likely to be affected by minimum wage legislation, two factors have to be taken into account. Firstly, the percentage increase in minimum wage as compared to the previous level has to be considered. Secondly, the percentage of employees who get minimum wage before the increase is important, as they are directly affected by the change, i.e. their wages have to be increased as a result. It is important to take into account that not only employees who used to get minimum wage are affected. Those who used to receive a wage lower than the new (increased) minimum wage are also influenced, even though their wage was higher than the old minimum wage level. Thirdly, enforcement of legislation is important, since, as predicted by the Two-sector model discussed above, if enforcement is weak, workers can easily move from the covered sector to the uncovered thus making the elasticity of employment low.

The real minimum wage increase in Lithuania varied from -1.42% to 11.3% (if we do not take into account the huge increase in 1996 but this was done due to hyperinflation in Lithuania in those years) (see Table 1 above). The percentage increase in the minimum wage is not high.

The percentage of employees getting the minimum wage in Lithuania is relatively high – in the whole economy in 2003 there were 18.4% of employees getting the minimum wage (Lietuvos Statistikos Departamentas). This number has been fluctuating around 16-18% in the period 1998-2003. To compare, in Estonia there are 5% employees getting the minimum wage, in Portugal 4%, in Holland and Ireland around 2%, in Spain, the UK, and the

³ In the EU 15 only nine countries have statutory minimum wages: Belgium, France, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, and the United Kingdom.

US – only 1%. The biggest number of employees with wages at the minimum wage as a percentage of total employment is in France and Luxembourg (this is not surprising, since the absolute minimum wages are very high in those countries) but even in these countries it does not go over 16% (Paternoster, 2004, 4). Therefore, 18.4% in Lithuania is a very high number. The more employees get the minimum wage, the bigger the consequences of minimum wage increase should be. The empirical evidence supports this view. In countries where the minimum wage is moderately binding (such as the UK or the US), the effects of minimum wage legislation on employment are ambiguous (Machin, Manning, and Rahman, 2002, 1). On the other hand, in France, where the percentage of the labour force getting the minimum wage is relatively high, negative employment effects are more clearly observable (Abowd, et al. 1997, 1). In Lithuania, therefore, the minimum wage legislation is expected to have a negative impact on employment.

3.3 Role of the Shadow Economy⁴

The effect of minimum wage legislation on unemployment, as predicted by the Two-sector model above, depends on the scope of the shadow economy in the country. If the shadow economy is large, minimum wage legislation might have little impact on the employment level, as companies would hire employees without signing official work agreements and pay wages not in accordance with labour law. According to the Lithuanian Statistical Department, in 2002 out of 1 144 thousand employees in Lithuania, 104 thousand worked unofficially. This constitutes 9% of the total labour force. In the *Hotel and Restaurant* sector, 13% of employees were working unofficially, which is 3% of total unofficially working employees. The part of shadow economy in the *Hotel and Restaurant* sector is comparatively high, as a higher percentage of unofficially working employees can be found only in Agriculture, hunting, and forestry, Mining and quarrying, and Construction industries (37%, 50%, and 28% respectively). This means that increase in minimum wage might not directly influence the level of employment, as there is a possibility for companies to employ workers unofficially and pay wages lower than centrally set statutory minimum wages. However, it also has to be taken into consideration that the above number of employees working unofficially also includes those workers who worked temporarily (for instance, when there was higher demand for employees than normally) and received wages in

⁴ Shadow economy in this paper refers to the extent of unofficial employment in the country (i.e. number of employees working without any job contract or percentage of salary “in envelopes“)

accordance with labour law; however, no official working agreements were signed due to the particularities of the work.

IV. METHODOLOGY

4.1 Choice of Method

The research question, as introduced above, aims to identify and analyze the effects of minimum wage legislation on companies' decision-making, in particular decisions regarding the firing and hiring of employees, thus affecting the general level of unemployment. In order to achieve this aim, the authors decided to conduct a survey by interviewing the directors of randomly selected companies in Lithuania.

Firstly, interviewing gives a deeper insight into the problem explored. Instead of analyzing aggregate data, which is frequently affected by irrelevant factors and which can be interpreted in different ways, a survey assures that real effects with the underlying reasons could be examined. Secondly, for this research it was essential to differentiate among companies in different sectors of the economy (as some sectors are more likely to be affected by minimum wage legislation than others), among different sizes of companies and among companies in different parts of Lithuania. For this purpose the survey method is the best, as the data structured in such a way is not available.

4.2 Sector Selection

As argued above, the increase of the minimum wage most negatively affects the employment possibilities of those workers who are employed for the minimum wage or whose wage is lower than the newly set minimum wage. Moreover, companies in the private sector are more affected by the increase in the minimum wage, as managers are directly concerned about the profitability of the company. Employees in the public sector, on the other hand, are less likely to be laid off as a result of increase in the minimum wage, as wages to them are paid not by the private owner but by the government. Therefore, the private sector is examined in the subsequent analysis.

The percentage of employees getting minimum wage varies across different economic activities in the private sector. In Lithuania, using the classification method of general economic activity called NACE, the biggest percentage of employees working for the minimum wage appears in the following economic activities: *Hotel and Restaurant* (44.9% in 2003), *Other Community, Social, and Personal Service Activities* (43.8%) and *Agriculture, Hunting and Forestry* (37.2%) (see Appendix 1 below).

As the percentage of employees getting the minimum wage is the biggest in the *Hotel and Restaurant* economic activity, the authors chose to examine this particular sector. There were 20400 people working in this sector in 2002 (19500 in 2001 and 18900 in 2000), which constitutes 2% of the total labour force in Lithuania. Although 2% is not a very high number, it is relevant to research this industry, as it could be a good starting point for exploring the other above industries with a high percentage of employees that receive the minimum wage.

4.3 Sample Selection

The population of companies in the *Hotel and Restaurant* sector, according to the NACE classification, consists of hotels and other places providing short-stay accommodation, restaurants, bars (these include any places where alcoholic drinks are sold for consumption on the spot), and canteens and catering (“Ekonominės veiklos rūšių klasifikatorius”). The sampling frame (the listing of all units in the population from which the sample was selected) consists of 2181 companies. These include 1491 cafes and bars, 217 restaurants, and 473 hotels and other places providing short-stay accommodation. Using a stratified random sampling, the authors obtained a sample size of 146 companies.

The type of questionnaire used was a telephone questionnaire. Companies were contacted by telephone and asked to answer several questions regarding the minimum wage legislation. As questions required general knowledge about investment and pricing decisions, human resource issues, the managers of companies were asked to participate in the survey.

4.4 Questionnaire

The questionnaire was designed to determine how the decisions of the companies were affected by the minimum wage legislation. The company was revised by the Lithuanian Free Market Institute and pre-tested by making 10 face-to-face interviews with the respondents (companies’ managers) seeking to get a deeper insight into the problem. Subsequently, certain amendments were made based on their proposals and new insights gained.

4.4.1 Questions

The questionnaire consists of four parts. In the first part general information about the company is asked. When examining the *Hotel and Restaurant* sector, several factors have to be taken into consideration:

- the size of the company measured by number of employees (as bigger companies might have more alternatives for neutralizing the effects of minimum wage increase);

- the percentage of people working for the minimum wage;
- the general financial situation (represented by gross profit) and degree of activities (represented by turnover) (as it is assumed that the better the financial situation of a company, the less it is influenced by minimum wage legislation).

The question about the difficulty in finding qualified workers was also included to get a better insight into local labour markets (highly relevant for companies working in small towns or villages).

The second part was aimed to analyze the effects of minimum wage increase from 450 to LTL 500, which happened in May, 2004, to companies' decision-making. The third part asked how a company would react if the minimum wage was increased to LTL 600 in 2005. The fourth and final part was devoted to find out the personal opinion of respondents about minimum wage legislation in general.

There were several decisions of the companies examined. These include the following:

- Decision upon the change in the number of employees in a company due to increased statutory minimum wage (Heterogeneous Labour Model, Brown, 1999). By this the hypothesis that employment possibilities of workers who get minimum wage decrease due to the newly set minimum wage was tested.

- Decision upon the change of the number of working hours of employees due to increased statutory minimum wage. There is a possibility that a company, instead of firing employees, could reduce the number of hours worked (e.g. employ part-time instead of full-time). This effect of minimum wage legislation, as mentioned above, has been already examined (e.g. Neumark, Schweitzer, and Wascher, 1999).

- Decision upon hiring or considering hiring more experienced employees due to the minimum wage increase (Heterogeneous Labour Model).

- Decision upon the wages of those employees who used to get more than the minimum wage. According to the Wage Effects Hypothesis the wages of employees who initially got more than the minimum wage are also likely to be increased, as wage differences should reflect differences in productivity. On the other hand, the company should try to neutralize the effects of minimum wage legislation by decreasing the wages of other employees or at least leaving the wages at the same level (Lemos, 2004). If this is true, the wage distribution in the company is decreased, and, as a result, one of the aims of minimum

wage legislation is achieved. However, the more qualified employees are undervalued by this action.

- Investment decisions of companies. Decrease in investments is one of the ways to decrease company expenditure and this can be used to offset increased labour costs in consequence of new minimum wage legislation. If a company has a higher level of profit (lower costs), it can spend more money for repairs and maintenance of equipment, interior, exterior or make new investments in fixed assets, training, or new facilities.

- Decision on price increase (Price Effects Hypothesis).

- Decisions to change the quality of products supplied. High quality of service and products requires a considerable input of time and money. If the costs of the company increase and it does not have the possibility to increase prices, it might choose to reduce the quality of products or services provided to some extent.

The fourth part of the questionnaire was designed to find out the opinion of the major decision-makers (directors or chief accountants) that are directly related to and affected by minimum wage legislation, about the future of minimum wage legislation. The questionnaire used during the interviews appears in Appendix 2.

V. RESULTS

5.1 Pre-research

In order to get a better insight into the problem and facilitate the development of the questionnaire the authors made a short pre-research that consisted of 10 face-to-face interviews lasting from 10 to 30 minutes. Managers of companies were asked to express their opinion about the existing minimum wage legislation in Lithuania and explain how it affects a company's short- and long-term decisions. Additionally, managers were questioned about current labour market trends and asked to identify other factors that make considerable impact on a company's hiring, firing, and payroll decisions. The companies were chosen deliberately (not randomly) due to the following reasons:

- the aim of the pre-research was to obtain a deeper insight of what impact minimum wage legislation may have on companies' decisions;
- the qualitative information obtained was not intended to be used for any kind of generalizations about the whole Hotel and Restaurant sector but instead was used as valuable input for the design of the questionnaire;

- time and money constraints made it virtually impossible to expand the pre-research to the whole of Lithuania.

Due to the above mentioned reasons the scope of the sample was geographically delimited to Vilnius, Trakai, Elektrėnai, and Šalčininkai districts and the only criterion for selection was heterogeneousness that was implemented by choosing companies that are different in terms of size, location, and type of activity. The final pre-research company list consists of 10 companies from 6 different cities of varying type of activity, size, and number of employees receiving minimum wage (for more detailed information see the table in Appendix 3).

As can be seen from the table, the opinion about the increase of statutory minimum wage from LTL 500 to LTL 600 in the year 2005 had varied substantially. This variation can be explained by many influencing factors such as the current financial situation in a company (e.g. gross profit and turnover), the size of a company (the number of employees working in a company), the percentage of employees receiving minimum wage, flexibility of the local labour market, and even personal characteristics of a manager. Therefore, it was imperative to include questions with reference to these factors in the final questionnaire, since they can prove to be deciding factors in shaping the viewpoint of interviewees. For instance, the manager of one company had strongly opposed any increase in the statutory minimum wage emphasizing that the company has no possibility of raising revenues due to huge competition in the sector. If the statutory minimum wage was increased, the only alternative for the company would be to go bankrupt. However, as stated by Mrs. Bareikienė, the chief accountant of *Karališkas sodas*, “the businessman who is not capable of paying his employees a minimum wage is not a real businessman and the problem here is not the minimum wage itself but inability to do business in general” (2005). Indeed, companies that face severe financial problems tend to be antagonistic to any kind of increase in expenditure. However, the decision to subsidize inefficient managers by allowing them to save on low labour costs may have negative social and economic consequences. As a result, such attitudes should be interpreted with due caution. The number of employees receiving the statutory minimum wage is also a highly important factor, since the lower the percentage, the less the company is influenced by an increase in the minimum wage. One more factor that may affect interviewees’ opinions is local market conditions, since somewhat unexpectedly the authors discovered that companies located in small villages are not willing to hire local workers due to their unwillingness to work and lack of skills. Managers prefer hiring more motivated and skilful workers from larger towns and cities instead. In this case, an increase in the statutory

minimum wage may not increase the income of people living in rural areas as compared to urban areas (where the percentage of workers receiving the minimum wage is much lower) and will have no positive effect on local consumption and income redistribution, i.e. it will not reduce the income gap between residents from rural areas and urban residents. Moreover, this may indicate that the level of rural unemployment is not affected by moderate changes in the level of minimum wage, since companies would still prefer hiring more skilled and motivated employees from larger settlements given the stable supply.

Virtually every interviewee had asserted that an increase in monthly minimum wage would substantially increase the tax burden for the company, since every increase of minimum wage by LTL 100 would increase the costs of the company by LTL 131 and benefits the employee by merely LTL 67 (as argued in the hypothetical example above). The majority of interviewees had asserted that minimum wage increase would not have such a negative impact on the company if the tax burden is not increased as a result. This proves that increased tax burden is one of the main reasons why the majority of managers are against any increase in statutory minimum wage level. They see minimum wage legislation as one of the ways for the Lithuanian government to increase revenues to the budget. Some companies have even admitted that an increase in minimum wage would not have had any negative effect on company's labour costs if taxes had not been increased, as there are quite a few employees who get wages "in envelopes" above the officially set statutory minimum wage. This proves the existence of the shadow economy in Lithuania. Indeed, Lithuanian Prime Minister A. Brazauskas had recently agreed that the "shadow economy in Lithuania is probably the biggest in the European Union" and, if there was no minimum wage legislation, many companies would indicate wages of LTL 50-100 in their financial statements in order to avoid high social taxes ("Premjeras: 600 litų minimali alga - ne riba", 2004). Consequently, the authors included a question asking whether interviewees would agree with the increase in minimum wage if the tax burden remained the same.

Some managers of companies located in small settlements had proposed (when setting the statutory minimum wage) to discriminate in terms of geographical location and make the statutory minimum wage level higher in Vilnius and other large cities while leaving it lower in rural areas or even set it lower for the trial period (one proposal only). Consequently, despite the considerable critique of this proposition by other managers, questions regarding these suggestions were included in the questionnaire. The idea to pay less than the statutory minimum wage during the trial period (up to 3 months) had raised huge disagreement and even rejection of the idea. The main argument was that it could easily become an easy way to

deceive employees and distract the labour market. Surprisingly, the majority of interviewees had agreed with the idea of minimum wage legislation in general. Without it, exploitation of employees in Lithuania would be inevitable, as labour unions are quite weak and can hardly defend the interests of workers. According to the president of *Vilniaus Bankas*, companies have two alternative ways to react to increased labour costs. One is to attract a more qualified labour force (which is getting more and more complicated due to intensified emigration to other EU member states) and the other is to invest in new technologies trying to substitute an expensive labour force (“Darbo užmokestis augs 9 proc.”, 2005). However, the authors found that both options are rather unpopular in the *Hotel and Restaurant* sector, since it is very difficult to attract skilled labour into this sector and is virtually impossible to substitute the labour force with technologies in the researched sector. The majority of interviewees had replied that, if the statutory minimum wage was increased, their companies would react by merely increasing the minimum wage as required. This implies that the level of employment should not be directly affected by legislation in the short run as companies are unwilling (and in most cases unable) to fire employees. Almost all managers indicated that it is not feasible to fire a single employee, since the number of employees in the company is not higher than that crucial for company survival. When asked how the company would mitigate the effect of costs increase, most managers answered that they would make the internal reorganization of the company and in this way would try to cut costs or would simply face decreased revenues. Some managers asserted that they would consider reviewing their investment plans. In particular, they would spend less money for improving interiors. It is interesting to note that interviewees stressed that they by no means would change the prices and/or quality of products and services due to high competition in the industry.

To sum up, this part of the research allowed the authors to get a deeper insight into the issue, helped to pre-test the questionnaire and edit it according to the suggestions of respondents, and was a tool of generating hypotheses. However, these hypotheses had to be tested by interviewing a larger number of companies. For this purpose, structured interviews with the managers of companies in the random sample were conducted.

5.2 Empirical Findings of the Research

As mentioned previously, the sample size was 146 companies operating in the *Hotel and Restaurant* sector. The number of responses received was 96 (66% response rate), as some telephone numbers provided in the database were not in use anymore, while some managers could not be contacted (due to various reasons), some declined to participate in the

survey, and some companies were not applicable for our research purposes (for instance, the only employee in the company was the manager). The list of all companies in the sample and the companies that participated in the survey are listed in Appendix 4.

5.2.1 Descriptive Statistics (Part I)

The absolute majority of companies interviewed were small enterprises employing 1-49 employees. Among those, somewhat less than half (50) had less than 10 employees, the other big part had 10-49 employees, and only 4 companies had more than 50 employees. This is not surprising having in mind that 98% of companies in the *Hotel and Restaurant* sector are small enterprises. In 75% of the companies that participated in the survey were more than 50% employees working for the statutory minimum wage and only 10,4% of the companies employed less than 10% of minimum wage receiving employees. Quite many companies contacted indicated that all (100%) employees in the company receive the statutory minimum wage. To the third question regarding the difficulty in finding qualified employees, the answers were almost equally distributed between “yes” and “no”. However, as predicted in the pre-research part, more companies from small settlements (as compared to companies from five major Lithuanian cities) indicated that it is difficult to find fairly qualified labour. This could be explained by the fact that the more qualified labour force moves from small settlements to larger cities, where opportunities to find a job are bigger. When asked about the turnover of the company, many managers (32) stated that turnover did not change in 2004, another big part admitted that it had slightly or substantially increased. Fewer claimed that turnover had increased. The question regarding the change of the gross profit in 2004 could be considered as sensitive and, therefore, a substantial part of managers answered that they did not want to reveal this information. As the sample was stratified, the number of companies contacted in different counties of Lithuania was proportional to the total number of companies in those counties. About 56% of the companies researched were located in five major cities, others – in smaller settlements. More detailed descriptive statistics of the companies surveyed can be found in Appendix 5.

5.2.2 Effects of Minimum Wage Increase in 2004 (Part II)

In the second part of the questionnaire, managers of companies were asked how the company reacted to the increase of minimum wage that happened on 1 May 2004. The results are surprisingly similar among companies with different specifications. The majority of the companies surveyed did not report any substantial change either in number of employees, or in number of working hours, or in number of more qualified employees, or in wages of

employees who used to get more, or in investments, or in the prices of products/services. This could be explained by several factors.

The number of employees in the company did not change due to the reasons generated during the pre-research. The majority of companies do not employ any additional people and firing of a single employee might cause serious problems for service provision to the customers. The same reason could be mentioned to explain why the number of working hours did not decrease either. The number of qualified workers in the company did not increase because, as mentioned in the pre-research section above, it is difficult to find qualified labour, especially for companies operating in the *Hotel and Restaurant* sector. The fourth question concerning the wages of employees who used to get more than the statutory minimum wage was not applicable in almost half of cases due to the fact that all or the biggest part of employees in the company work for the minimum wage. In this case, there are no people getting more than the statutory minimum wage (at least officially). Some companies, however, reported that wages of the aforementioned employees slightly increased (32). These results are in accordance with the theory that when the minimum wage is increased, the distribution of wages does not change substantially, as more qualified employees are paid proportionally more. On the other hand, this means that the wage increases for the majority of employees. Investments to fixed assets were stated to stay the same, as, in order to make substantial investments, huge sums of money are needed and the LTL 50 increase in minimum wage can hardly influence investment decisions. Still, some managers mentioned that investments had slightly decreased. Finally, the prices of services were also stated to stay the same, which is explained by tough competition in the sector. Tables with precise results in appear in Appendix 6.

The small effects of minimum wage increase on company decision-making could also be explained by the fact that a LTL 50 increase is not very substantial, especially having in mind that the number of employees in the surveyed companies is not large. A LTL 50 increase in minimum wage level means LTL 65.5 increase in costs for a company (LTL 50 plus 31% in taxes). If, for instance, a company had 10 employees, its costs would increase by LTL 655 per month. This is not a huge amount which should stimulate a decrease in the number of employees or affect investments and pricing decisions, etc.

5.4.3 Effects of Possible Minimum Wage Increase (Part III)

In the third part of the questionnaire, there were provided seven statements indicating how the company might react to a possible minimum wage increase in 2005 from LTL 500 to

600 (there is a discussion going on in Lithuania about the need to increase the level of minimum wage to this level). The respondents were asked to indicate their degree of agreement. Results to some extent correspond to the results in the second part, though there are some differences.

A large part of respondents indicated that they would not decrease the number of employees in the company, the number of working hours, or increase the number of more qualified employees. The reasons for these decisions, as indicated by respondents, are similar to those mentioned above. The statement about the wages of employees who used to get more than the minimum was again not applicable in most cases. Investment to fixed assets would not decrease either, as many companies operate with a small profit and cannot invest much in the fixed assets at all.

It is important to point out that an absolute majority of respondents claimed that they definitely would not decrease the quality of products/services and would not increase prices. This could be explained by the fact that the good name of a company is hard-earned by offering good quality for a reasonable price. If either quality is decreased or prices are increased, this would definitely result in loss of some customers, which might be a disaster for companies with a small profit. Therefore, very few respondents indicated that they would consider increasing prices or decreasing quality.

Another interesting finding is that in rural areas more respondents mentioned that the situation in the company would dramatically worsen if the minimum wage was increased. Some of them even claimed that their company would most probably go bankrupt, as there would be no profit from operating. Therefore, in rural areas more respondents indicated that they would consider firing some employees or reducing their working hours. In the main cities, respondents were more optimistic. They claimed that a minimum wage increase would not affect their companies so seriously. For more detailed results see Appendix 7.

5.4.4 Opinion About the Minimum Wage Legislation

As mentioned above, the final part of the questionnaire was included to find out what the people who are directly affected by minimum wage increase think about this legislation. There are many discussions going on in society about the positive and negative impact of such legislation; however, the employees' position is more emphasized and the position of companies is often forgotten. It is, however, important to take into account the impact of minimum wage legislation on companies as well. The opinion of the respondents had also indirectly shown whether the companies are negatively affected by the legislation. In other

words, it can be assumed that if managers of companies claim that they are against the minimum wage increase, it implicitly means that their companies are negatively affected by the legislation.

Surprisingly, more respondents claimed that the minimum wage in Lithuania should be increased further. However, there is a difference between answers in major cities and smaller settlements. Respondents in smaller settlements were more against minimum wage increase, while in major cities managers were less antagonistic towards further minimum wage legislation.

An absolute majority of respondents, however, indicated that they would be for minimum wage increase in case the tax burden for the company stayed the same. This means that those managers who were against minimum wage legislation were partly against it because of the increased tax burden. The results also correspond to the hypothesis generated in the pre-research.

Most of the respondents, however, did not agree with suggestions to pay less than the minimum wage during the trial period or set a lower minimum wage for specific regions in Lithuania. The latter suggestion, however, was more favourably met by managers of companies located in rural areas. This is not so surprising, keeping in mind that a lower minimum wage level in specific regions would mean lower costs for companies in those regions.

To the final statement concerning incentives to pay wages “in envelopes“, a major part of respondents (37) strongly disagreed, though quite a few (23) stated that, in their opinion, minimum wage legislation really increases incentives to pay wages in envelopes. Those who did not agree with the statement mostly claimed that the minimum wage is already relatively high and that there is no possibility to pay additionally “in envelopes“. Only companies with a better financial situation can try to avoid taxation using this method. More detailed results of Part IV can be found in Appendix 8.

5.3 Discussion of Results

Before making any conclusions from the empirical data collected, several issues have to be taken into account. Firstly, as already mentioned above, the answers of the managers are influenced by their attitudes and opinions and cannot be considered as facts. Secondly, there is a probability that managers did not provide precise information about the decisions of their companies. They might have hidden some facts and might have presented facts that do not

exactly correspond to reality. This, however, could not be avoided when conducting a survey, as the subjectivity of respondents is always present.

Thirdly, there is a certain non-response bias. The response rate of the questionnaire was 65%. The answers of the companies which refused to participate in the survey or the managers of which could not be contacted, might have had some impact on the results. Fourthly, as there were 2 interviewers, there could exist an interviewer bias. Every person has his or her own way of asking questions and unintended specific intonation might lead the respondent to a certain answer.

It also has to be taken into account that the research was intended to find out how companies react to minimum wage increase in the short run, i.e. right after the increase in the wage. Therefore, no implications about the impact to the company in the long run can be made. It might be the case that the company will consider firing some employees or decreasing the investment after some time has passed after the minimum wage increase; however, these decisions are not tracked (and could be hardly tracked) by this research.

One more aspect, which was already mentioned in several parts of this paper, has to be considered, namely, the scope of the shadow economy. Even though many companies stated that there were more than 50% of employees getting the minimum wage, this high percentage might be influenced by the fact that part of the wages are paid “in envelopes”. Although the managers disagreed with the statement that minimum wage legislation increases incentives to pay wages “in envelopes”, they might have disguised the fact that they actually do pay wages unofficially. If this is the case, then the results might be not accurate as, if the minimum wage is being increased, then company costs increase only by the amount of taxes paid and, as a result, have a smaller impact on decisions.

VI. CONCLUSIONS AND IMPLICATIONS

As suggested by the research done, minimum wage legislation does not have a substantial influence on the decisions of companies. The increase of the statutory minimum wage from LTL 450 to 500 on 1 May 2004 was not followed by companies' decision to fire employees, decrease working hours, hire more qualified employees, reduce investments, or increase the prices of goods or services provided. Neither does the possible increase in 2005 seem to have a huge influence on companies. Although quite a few managers stated that the increased statutory minimum wage would substantially worsen the financial situation in the company, these might be attributed to not successful businesspeople who would exit the market in the long run in any case. Successful business people should be able to pay the

minimum wage and more; this is also proved by the fact that the majority of respondents stated that the minimum wage should be increased further.

One factor, however, has to be seriously considered before implementing the decision to raise the statutory minimum wage. An absolute majority of companies indicated that the worst aspect associated with minimum wage legislation is the increase in tax burden. The Government could avoid a big part of the negative influence on companies in the *Hotel and Restaurant* sector by raising the minimum wage but at the same time either reducing the tax rate or increasing the tax-free minimum. The reduced tax rate would result in less additional costs for the company; increase in tax free minimum would benefit an employee more, as he/she would get more money in hand.

It is important to point out that the results of the empirical study can be applied only to the *Hotel and Restaurant* sector and cannot be generalized to the whole of Lithuania. Therefore, in order to either support the empirical findings in this research or challenge them, additional research is needed. The sector studied might have specific characteristics that are not attributable to other sectors in the economy. For instance, such sectors as fishery or construction, with a relatively high percentage of employees working for the minimum wage, could be explored.

To sum up, the *Hotel and Restaurant* sector was relatively prepared for the minimum wage increase in Lithuania. However, before increasing studied minimum wage the Government should consider the negative impact of the tax burden.

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VIII. APPENDICES

Appendix 1. Percentage of employees getting minimum wage and less in Lithuania in October of each year

Year	1998	1999	2001	2002	2003
Total	24.1	25.5	24.7	26.6	24.2
A - Agriculture, hunting and forestry	54.1	54.6	42.4	42	37.2
B – Fishing	34	23.3	46.2	38.3	27.1
C - Mining and Quarrying	7.2	5.5	9	8.4	7.1
D – Manufacturing	16	15.6	18.4	20.3	17.9
E – Electricity, gas and water supply	9.4	19.4	7.6	5.8	7.2
F – Construction	11.3	18.5	18.3	19.4	15.4
G - Wholesale and retail trade	29.1	30.2	31.2	32.6	29.2
H - Hotel and Restaurant	42.8	45.6	42.2	45	44.9
I - Transport, storage and communication	25.5	30.7	27.6	33.2	27.6
J – Financial intermediation	11.6	9.1	11.4	14.6	13.4
K - Real estate, renting, and business activities	25.1	29.3	31.5	31.5	33.3
L – Public administration and defense					
M – Education	41.7	30	37.5	38.3	32.6
N - Health and social work	33.9	31.2	33.9	32.4	30.2
O - Other community, social and personal service activities	33.8	37	44.5	42.7	43.8

Source: Lietuvos Statistikos Departamentas (there were no statistical data collected for year 2000).

The minimum wage rate in Lithuania was not changed from 1998 until 2003 and was set at LTL 430 per month level. In September 2003, the minimum wage was increased to LTL 450 per month. The data for 2003 corresponds to the increased statutory minimum wage, except some economic entities in agriculture, which were regulated to get the minimum wage of LTL 430 per month.

Appendix 2. Questionnaire

Good afternoon. We are conducting a survey regarding the minimum wage legislation in Lithuania and its effects on company's decisions. For that purpose we have prepared several questions. Could you dedicate from 5 to 10 minutes to answer them?

Part I General Information

Firstly, we need general information about your company. Tell me your name and surname. I assure you that information is confidential and the collected data will be used to conduct analysis at aggregate level.

Respondent's name and surname

Position of the respondent in the company (preferably manager)

Name of the company (know before calling)

1. How many employees work in your company (on average per year, including employees in part-time jobs)?
 - Less than 10
 - 10-49
 - 50 and more
2. In your company, what is the percentage of employees receiving statutory minimum wage? (currently LTL 500 for a full-time position)
 - Less than 10%
 - 10-50%
 - More than 50%
3. Is it difficult to find employees (waiters, bartenders, etc.) with appropriate qualifications in your town (village)?
 - Yes
 - No
 - I don't know
4. How did the turnover of your company change in 2004 as compared to previous year?
 - Considerably decreased
 - Slightly decreased
 - Did not change
 - Slightly increased
 - Considerably increased
5. How did the gross profit of your company change in 2004 as compared to previous year?
 - Considerably decreased
 - Slightly decreased
 - Did not change
 - Slightly increased
 - Considerably increased

Part II The Effects of Minimum Wage Increase in Lithuania from LTL 450 to 500 (1st May, 2004)

The second part consists of 6 questions which intend to find out how the minimum wage increase on 1 May 2004 affected your company.

	Considerably decreased	Slightly decreased	Did not change	Slightly increased	Considerably increased	I do not know
1. In your company, how	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>

did the number of employees change due to increase in SMW?						
2. How did the number of working hours of employees change?	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>
3. How did the number of more qualified employees change?	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>
4. How did the wages of employees who used to get higher wage than SMW change?	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>
5. How did the investments in fixed assets change?	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>
6. How did the prices of goods/services change?	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>

Please indicate any other effects of minimum wage legislation to your company (those, which were not mentioned above)

Part III The Effects of Possible Increase of SMW from LTL 500 to 600

The third part consists of 7 questions in order to find out how your company would react to further increase in SMW. I will read to you a proposition one by one. Please indicate whether you agree or disagree with a proposition using a scale from 1 to 5, where 1 means "Strongly disagree" and 5 means "strongly agree".

How, in your opinion, the company would react to the increase of SMW from 500 to 600 Lt if it happened in 2005?

	Strongly disagree	Disagree	Neither agree, nor disagree	Agree	Strongly agree
1. The company would consider the possibility to reduce the number of employees	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
2. The company would consider the possibility to reduce the working hours of employees	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
3. The company would consider the possibility to hire more qualified employees	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
4. The company would consider a possibility to increase the wages of those employees who used to get higher wage than SMW.	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
5. The company would consider a possibility to reduce the investment to fixed assets	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
6. The company would consider a possibility to reduce the quality of products/services	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

7. The company would consider a possibility to increase the prices of products/services	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
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Part IV Your Opinion About the Minimum Wage Legislation

In the last, fourth, part we would like to find out your opinion about the minimum wage legislation. Using the earlier used scale from 1 to 5 please indicate whether you agree or disagree with the propositions.

	Strongly disagree	Disagree	Neither agree, nor disagree	Agree	Strongly agree
1. SMW should be implicitly increased in 2005	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
2. SMW could be increased if it does not increase the tax burden	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
3. It should be allowed to pay lower wage than SMW during the trial period (up to 3 months)	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
4. SMW should be increased to LTL 600 but not in all counties of Lithuania	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
5. Minimum wage legislation increases incentives to pay wages "in envelopes"	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

Thank you for your co-operation! Have a nice day!

Appendix 3. List of Companies Used in Pre-research

Name of the company	City (distance from Vilnius in kilometers)	Type of activity/Number of employees (size of the company)	Opinion about the increase of statutory minimum wage in 2005 (Justification)	% of workers getting minimum wage
„Velnio Duobė”	Aukštadvaris (60)	Bar/Small (7)	Ambiguous (Tax burden)	100%
„Litavaravas“	Lentvaris (20)	Bar/Small (8)	Against the increase (Tax burden)	80-100%
„Kesminta“	Šalčininkai (41)	Hotel/Medium (12)	Against the increase (Unsatisfactory qualification of workers)	100%
„Židinys”	Trakai (32)	Cafe/Small (5)	Against the increase (Bankruptcy)	>50%
„Markizas“	Trakai (32)	Cafe/Medium (12)	For the increase (Welfare work)	~30%
„Karališkas Sodas”	Trakai (32)	Restaurant/Medium (32)	For the increase (Welfare work)	~10% (2)
Bitana	Vievis (36)	Café/Small (5)	Against the increase (Tax burden)	100%
„Vandens Malūnas“	Vilnius (~ 10)	Restaurant/Medium (12)	Ambiguous (Welfare, Tax burden)	~ 20%
„Kiemelis“	Vilnius (0)	Cafe/Medium	Against the increase	30-50%

		(~ 25)	(Tax burden)	
„Crowne Plaza Vilnius“	Vilnius (0)	Hotel/Large (~ 40)	For the increase (Welfare work)	~20%

Appendix 4. List of the Companies Surveyed

Abbreviation	Denotation	Explanation
C	Surveyed	Company has been contacted and surveyed
N	Not surveyed/contacted	Company has not been surveyed or contacted
Reasons for not contacting:		
RP	Refused to participate in the survey	Company has been contacted, but participants have refused to participate in the survey
NC	Unable to contact managers	Company has been contacted, but authors were unable to contact in 2 successive attempts the person (director or chief accountant) competent enough to answer the survey questions
N/A	Not applicable	Company has been contacted, but it turned out that it does not belong to the <i>Hotel and Restaurant</i> sector as it was indicated in “Mūsų Lietuva 2005”, the company has only one employee, or it is not constantly operating.
NN	Number not in use	Authors were unable to contact the company in 3 successive attempts on a day-to-day basis (No one had answered the call or number was not in use)

Company	Address	County	Contacting Telephone	Type of Activity	Status	Reason of non response
ALKA, kavinė, V. Braginos IĮ	M. K. Čiurlionio g. CC3A, LT-66C6C Druskininkai	Alytus	(313) 52849	Cafes, Bars	C	
DVYNIAI, viešbutis, E. Jurkevičiaus IĮ	Sodų g. 47, LT-67112 Lazdijai	Alytus	(318) 51500	Hotels	C	
GLŪKO SMUKLĖ, UAB	Glūkas, Varėnos sen., LT-65486 Varėnos r.	Alytus	(310) 30385	Cafes, Bars	C	
LAPSNIS, G. S. Bandzino IĮ	Žalgirio g. 3, LT-62121 Alytus	Alytus	(315) 30308	Cafes, Bars	N	N/A
PALERMO PICERIJA, naktinis klubas, UAB "Šalmėtė"	Rotušės a. 2A, LT-62141 Alytus	Alytus	(315) 51875	Cafes, Bars	C	
RINVALIS, UAB	I. Fonbergo g. 7, LT-66120 Druskininkai	Alytus	(313) 42079	Restaurants	C	
T. SURAUČIAUS IĮ	Švendubrė, Viečiūnų sen., LT-66444 Druskininkai	Alytus	(313) 66444	Cafes, Bars	N	NN
ŽIBINTAS, viešbutis "Lazdijų butų ūkis", UAB	Nepriklausomybės a. 4, LT-67107 Lazdijai	Alytus	(318) 51269	Hotels	C	
ALAUDA, UAB	Sporto g. 2A, LT-44221 Kaunas	Kaunas	(37) 322256	Cafes, Bars	N	NC
ARMA, A. Martinaičio IĮ	Medvėgalio g. 12-9, LT-44447 Kaunas	Kaunas	(37) 742969	Restaurants	N	N/A
ATSKALŪNAS, baras, UAB "Preludas"	Draugystės g. 19, LT-51230 Kaunas	Kaunas	(37) 350620	Cafes, Bars	N	NC
BILJARDAI, UAB	Centrinė g. 2C, Ramučiai, Karmėlavos sen., LT-54464 Kauno r.	Kaunas	(37) 432234	Billiard	C	
DALILĖ, kavinė-baras, I. Žemaitytės IĮ	Šv. Gertrūdos g. 68, LT-44269 Kaunas	Kaunas	(37) 320738	Cafes, Bars	N	NN
DUGELVA, UAB	A. Mickevičiaus g. 9, LT-44307 Kaunas	Kaunas	(37) 221361	Cafes, Bars	N	NC
EX IT, klubas, UAB "Karaliaus dvaras ir partneriai"	A. Jakšto g. 4, LT-44279 Kaunas	Kaunas	(37) 202813	Cafes, Bars	N	RP
GILIMA, G. Marcinkevičiaus IĮ	Veiverių g. 57, LT-46211 Kaunas	Kaunas	(37) 295238	Cafes, Bars	C	

J. KETRIENĖS SODYBA	Maironio g. 12, Rumšiškės, Rumšiškių sen., LT-56335 Kaišiadorių r.	Kaunas	(346) 47379	Hotels	C	
KALDERA, UAB	Vaidoto g. 175, LT-45392 Kaunas	Kaunas	(37) 757000	Billiard	N	NC
KAUNO VIEŠBUTIS, UAB	Laisvės al. 79, LT-44001 Kaunas	Kaunas	(37) 750860	Hotels	C	
KRYŽKELĖ, kavinė, KB "Raseinių prekyba"	Kryžkalinis, Nemarkščių sen., Autobusų stotis, LT-60381 Raseinių r.	Kaunas	(428) 46341	Cafes, Bars	C	
LITINTERP, Kauno filialas, UAB	Gedimino g. 28-7, LT-44319 Kaunas	Kaunas	(37) 205312	Hotels	C	
MARTIDA, UAB	Draugystės g. 13A, LT-51225 Kaunas	Kaunas	(686) 43973	Cafes, Bars	N	NN
MILARA, UAB	S. Daukanto g. 11A, LT-44305 Kaunas	Kaunas	(37) 323304	Hotels	C	
NAPOLĖ, restoranas, UAB "Profina"	Gedimino g. 33, LT-44311 Kaunas	Kaunas	(37) 320920	Restaurants	N	NC
PAS MAMA, kavinė-baras, O. Mitašūnienės IĮ	T. Masiulio g. 17A, LT-52355 Kaunas	Kaunas	(37) 370394	Cafes, Bars	C	
PIZZA JAZZ, restoranas, UAB "Dovintė"	Savanorių pr. 349, LT-49425 Kaunas	Kaunas	(37) 313470	Restaurants	N	RP
PUTA, E. Muko IĮ	Pažangos g. 29, LT-55117 Jonava	Kaunas	(349) 53992	Cafes, Bars	C	
RAMUNILA, filialas, UAB	Raudondvario pl. 101, LT-47178 Kaunas	Kaunas	(615) 29926	Cafes, Bars	C	
ŠAULYS, restoranas, UAB "Rimvaras"	Nepriklausomybės a. 5, LT-44240 Kaunas	Kaunas	(686) 31831	Restaurants	C	
SIČUAN, Lietuvos ir Kinijos, UAB	A. Mickevičiaus g. 30, LT-44245 Kaunas	Kaunas	(37) 220756	Restaurants	N	NC
ŠVIESOS TAŠKAS, UAB	Žeimių g. 15, LT-55158 Jonava	Kaunas	(349) 53799	Cafes, Bars	C	
UŽEIGA, kavinė, "Pušynas" J. Kiznio IĮ	Bačkonių g. 6A, LT-47106 Kaunas	Kaunas	(37) 366444	Cafes, Bars	C	

VAIVIJA, UAB	Europos pr. 79, LT-44001 Kaunas	Kaunas	(37) 391113	Cafes, Bars	C	
VYŠNELĖ, J. Prokopienės IĮ	Panerių g. 71A, LT-48324 Kaunas	Kaunas	(37) 266360	Cafes, Bars	N	NC
ŽEMYNA, svetainė, R. Genienės IĮ	Birutės g. 10, LT-57175 Kėdainiai	Kaunas	(347) 61037	Cafes, Bars	N	RP
AITVARAS, kavinė, D. Daujotienės IĮ	J. Basanavičiaus g. 17, LT-00135 Palanga	Klaipėda	(460) 52042	Cafes, Bars	N	NC
APUOLĖ, viešbutis	Dariaus ir Girėno g. 3, LT-98117 Skuodas	Klaipėda	(440) 73225	Hotels	C	
AUSTĖJA, UAB "Palangos vėtra"	Smilčių g. 31, LT-00137 Palanga	Klaipėda	(440) 53032	Hotels	C	
BŪRŲ UŽEIGA "IHOMĖJA", UAB	Kepėjų g. 17, LT-91247 Klaipėda	Klaipėda	(46) 411319	Cafes, Bars	C	
DOVIRMA, poilsio namai, UAB "Dovirma"	Mokyklos g. 56, Šventoji, Šventosios sen., LT-00303 Palanga	Klaipėda	(687) 26786	Hotels	N	NC
EMA, svečių namai, IĮ	Jūratis g. 32, LT-00133 Palanga	Klaipėda	(460) 48608	Hotels	N	NC
G. LENDRAITIENĖS IĮ	L. Rėzos g. 12-3, Juodkrantė, Juodkrantės sen., LT-93101 Neringa	Klaipėda	(469) 53130	Cafes, Bars	C	
GRANTO SMUKLĖ, UAB "Muzikos sala"	Kepėjų g. 10, LT-91247 Klaipėda	Klaipėda	(46) 411683	Restaurants	C	
JŪRATĖ IR KASTYTIS, kavinė-baras, UAB	Taikos pr. 105A, LT-94202 Klaipėda	Klaipėda	(46) 341817	Cafes, Bars	C	
KASTYTIS, poilsio namai, IĮ	Pamario g. 47, Nida, LT-93124 Neringa	Klaipėda	(469) 52042	Hotels	N	NN
KLAIPĖDOS VIKTORIJA, Lietuvos ir Didžiosios Britanijos, UAB	S. Šimkaus g. 2, LT-92128 Klaipėda	Klaipėda	(46) 412188	Hotels	C	
LAIKRAŠTIS, kavinė-baras, R. Dainausko IĮ	Turgaus g. 3-2, LT-91247 Klaipėda	Klaipėda	(46) 410669	Cafes, Bars	C	

LŪGNĖ, viešbutis, UAB "Kopų lūgnė"	Galinio Pylimo g. 16, LT-91232 Klaipėda	Klaipėda	(46) 411884	Hotels	C	C
MEDŽIOTOJŲ KIEMELIS, viešbutis, UAB	Smilčių g. 61, LT-00137 Palanga	Klaipėda	(460) 52617	Hotels	N	NC
NAVALIS, viešbutis	H. Manto g. 23, LT-92234 Klaipėda	Klaipėda	(46) 404200	Restaurants, Hotels	N	NC
NIDOS SKALVA, UAB	Purvyinės g. 19, Nida, LT-93123 Neringa	Klaipėda	(469) 32501	Hotels	N	NC
PALVA, UAB	Statybininkų g. 7, Gargždai, Gargždų sen., LT-91001 Klaipėdos r.	Klaipėda	(46) 470921	Hotels	C	
PIETŲ ŽEMĖ, baras-biliardinė, UAB "Forvija"	H. Manto g. 11A, LT-92130 Klaipėda	Klaipėda	(46) 314687	Cafes, Bars	N	NC
POKERVEGAS, lošimo namai, UAB	J. Janonio g. 11/Gintaro g. 2, LT-92238 Klaipėda	Klaipėda	(46) 401121	Casino	C	
RA, UAB	Preilos g. 9, Preila, Preilos-Pervalkos sen., LT-93104 Neringa	Klaipėda	(469) 55109	Hotels	N	NN
RONŽES UOSTAS, kavinė Pas Mane, A. Bučo II	Jūratis g. 2A, LT-00136 Palanga	Klaipėda	(698) 22460	Cafes, Bars	C	
SAN MARINO, R. Gajausko komercinė firma	Teatro g. 1/Žvejų g. 21, LT-91001 Klaipėda	Klaipėda	(46) 411167	Restaurants	C	
SLAVIŠKA VIRTUVĖ, restoranas, V. Vaitenko ir N. Vaitenko II	Tiltų g. 6, LT-91248 Klaipėda	Klaipėda	(46) 493910	Restaurants	N	RP
SVEČIŲ NAMAI, A. Nesticienės, PĮ	J. Basanavičiaus g. 35, LT-00135 Palanga	Klaipėda	(686) 76128	Hotels	C	
V. VALJKANSKIO II	Turgaus a. 12, LT-91247 Klaipėda	Klaipėda	(46) 493205	Billiard	C	
VIENKIEMIS, kavinė, J. Šoblinskienės II	Padvariai, Kretingos sen., LT-97157 Kretingos r.	Klaipėda	(685) 80891	Cafes, Bars	C	
ŽALIAS NAMAS, viešbutis,	Vytauto g. 97, LT-00132 Palanga	Klaipėda	(460) 51231	Hotels	N	NN

UAB "Ogiva"									
ZUNDA, poilsio namai	Vytauto g. 150/Bangų g. 2, LT-00153 Palanga	Klaipėda	(5) 2620982	Hotels	N			NC	
BALTAS BARAS, UAB	S. Daukanto g. 19, LT-69430 Kazlų Rūda	Marijampolė	(343) 98871	Cafes, Bars	N			NC	
I. KRIŠČIŪNIENĖS PREKYBOS IĮ	Mokolų g. 39-14, LT-68166 Marijampolė	Marijampolė	(343) 56519	Cafes, Bars	N			NC	
PANDA, kavinė-baras, A. Totoraitienės imonė	Gedimino g. 6, LT-68306 Marijampolė	Marijampolė	(343) 92645	Cafes, Bars	C				
V. STENDŽIKIENĖS ALAUS BARAS	Kauno g. 84, LT-68241 Marijampolė	Marijampolė	(343) 70233	Cafes, Bars	C				
B. ČERNIAUSKIENĖS IĮ	Panevėžio g. 16, LT-42162 Rokiškis	Panevėžys	(458) 51162	Cafes, Bars	C				
EKOLOGIŠKOS MAISTO PREKĖS, parduotuvė-kavinė	Vytauto g. 31, LT-41146 Biržai	Panevėžys	(450) 32067	Cafes, Bars	N			NC	
KAFENHAUZ, Žaliasis žiogas, UAB	Ukmergės g. 3, LT-35183 Panevėžys	Panevėžys	(45) 461595	Cafes, Bars	C				
LIPASA, kavinė, R. Preibio IĮ "Artaura"	Nemuno g. 70, LT-35190 Panevėžys	Panevėžys	(45) 467797	Cafes, Bars	C				
PAKELĖS NAMAI, UAB	Škilimpamūšio k., Saločių sen., LT-39426 Pasvalio r.	Panevėžys	(451) 40555	Hotels	C				
PUNTUKAS, restoranas, V. Savicko IĮ	Respublikos g. 2, LT-35199 Panevėžys	Panevėžys	(698) 30939	Restaurants	C				
S. RIMKIENĖS FIRMA	Palėvenėlė, Alizavos sen., LT-40452 Kupiškio r.	Panevėžys	(459) 39359	Cafes, Bars	C				
TRYS BIČIULIAI, alaus baras, UAB "Dalitas"	Gedimino g. 36A, LT-40130 Kupiškis	Panevėžys	(459) 35187	Cafes, Bars	N			NN	
ŽALIASIS AITVARAS, UAB	Ramygalos g. 94B, LT-36227 Panevėžys	Panevėžys	(45) 435747	Cafes, Bars	C				
AL AUS BARAS, G. Šurnos IĮ	Statybininkų g. 6, LT-83182 Pakruojis	Šiauliai	(421) 66001	Cafes, Bars	N			NN	
B. URBONA VIČIENĖS IĮ	Tilžės g. 133, LT-76349 Šiauliai	Šiauliai	(41) 523079	Cafes, Bars	N			NC	

GLUOSNIS, UAB	Vytauto Didžiojo g. 96, LT-83162 Pakruojis	Šiauliai	(421) 51009	Cafes, Bars	C	
JUONĖ PASTUOGĖ, smuklė, IĮ	Aušros al. 31A, LT-76300 Šiauliai	Šiauliai	(41) 524926	Cafes, Bars	C	
L. BUGENIENĖS IĮ	Šiaulių g. 1, LT-82142 Radviliškis	Šiauliai	(422) 61312	Cafes, Bars	C	
MINGA, kavinė, S. Skačkovo IĮ	Lyros g. 13, LT-78275 Šiauliai	Šiauliai	(41) 552851	Cafes, Bars	N	NN
PIZZA AMERICANA, UAB	Žemaitės g. 56, LT-76301 Šiauliai	Šiauliai	(41) 525256	Cafes, Bars	N	NC
ROMINDA, UAB	Pabalių g. 88, LT-77118 Šiauliai	Šiauliai	(41) 423583	Cafes, Bars	C	
ŠIAULIAI, kavinė, V. Dėdelio IĮ	Draugystės pr. 25, LT-76289 Šiauliai	Šiauliai	(41) 436673	Cafes, Bars	C	
TRYS BERNELIAI, alaus baras, IĮ	Vytauto Didžiojo g. 41, LT-83156 Pakruojis	Šiauliai	(421) 60200	Cafes, Bars	C	
VĖTRUNGĖ, G. Jaškulienės IĮ	Vienybės a. 3, Linkuva, Linkuvos sen., LT-83443 Pakruojo r.	Šiauliai	(421) 64363	Cafes, Bars	C	
ŽILVINAS, pramogų centras, H. Mikaltėno IĮ	Livonijos g. 3, LT-84123 Joniškis	Šiauliai	(426) 60320	Restaurants	C	
J. ŠLEPIENĖS IĮ	Vytauto g. 44, LT-72264 Tauragė	Tauragė	(446) 53186	Cafes, Bars	C	
POLERIS, A. Sandaro IĮ	Algirdo g. 10-1, LT-74161 Jurbarkas	Tauragė	(447) 54363	Cafes, Bars	C	
SAVAS, S. Baciūškos įmonė	Liepų takas 10, LT-72109 Tauragė	Tauragė	(446) 61377	Cafes, Bars	N	RP
AL AUS BARAS 22, V. Jokubausko IĮ	Draugystės g. 22-1B, LT-89167 Mažeikiai	Telšiai	(443) 50317	Cafes, Bars	C	
ERA, E. Raštučio IĮ	Krakiai, Mažeikių apyl. sen., LT-89237 Mažeikių r.	Telšiai	(443) 42347	Hotels	C	
KRISTA, J. Gydrienės kavinė-baras	Ventos g. 8, LT-89103 Mažeikiai	Telšiai	(443) 65556	Cafes, Bars	C	
R. VAINAUSKIENĖS IĮ	Naujoji g. 4, LT-89101 Mažeikiai	Telšiai	(443) 68255	Cafes, Bars	N	NC
VARNIŲ PIRAS, UAB	Dariaus ir Girėno g. 1, Varniai, Varnių m. ir apyl. sen., LT-88321	Telšiai	(444) 47776	Cafes, Bars, Hotels	C	

	Telšių r.		Utena		(386) 47473	Cafes, Bars	C	
AUKŠTAIČIŲ UŽEIGA, kavinė, UAB "Palūšės užėiga"	Palūšės k., Ignalinos sen., LT-30202 Ignalinos r.		Utena		(386) 47473	Cafes, Bars	C	
E. JANKAUSKIENĖS VISUOMENINIO MAITINIMO ĮMONĖ	Liudiškių g. 10, LT-29130 Anykščiai		Utena		(381) 58714	Cafes, Bars	C	
J. VASALAUŠKO IĮ	Žemaitės g. 33A, LT-32114 Zarasai		Utena		(385) 52296	Cafes, Bars	C	
MIMINA, kavinė, UAB	Taikos pr. 23, LT-31107 Visaginas		Utena		(386) 71172	Cafes, Bars	C	
PERLAS KAVINĖ, V. Melkumovos IĮ	Vilties g. 1, LT-31118 Visaginas		Utena		(386) 60154	Cafes, Bars	C	
ŠALIA KELIO KARČEMA, kavinė-baras, J. Medaišos IĮ	Nemėikščiai, Utenos sen., LT-28124 Utenos r.		Utena		(684) 23578	Cafes, Bars	N	RP
VANDORA, UAB	Luokesa, Luokesos sen., LT-33159 Molėtų r.		Utena		(383) 53281	Cafes, Bars	C	
AAA BALTIC, svečių namai, UAB	Ligoninės g. 5, LT-01134 Vilnius		Vilnius		(5) 2122225	Hotels	C	
AKTORIŲ NAMAI, kavinė-baras	Gedimino pr. 1, I a., LT-01103 Vilnius		Vilnius		(5) 2627681	Cafes, Bars	N	NN
ANTARIS	Antakalnio g. 42, LT-10304 Vilnius		Vilnius		(5) 2346016	Cafes, Bars	C	
ARTIS VIEŠBUTIS, UAB "Centrum"	Liejyklos g. 11/23, LT-01120 Vilnius		Vilnius		(5) 2660366	Hotels	C	
AŽUOLIUKAS, kavinė, A. Vainikienės IĮ	Maironio g. 56, LT-20177 Ukmergė		Vilnius		(340) 63890	Cafes, Bars	C	
BALTVEDA, UAB	Klevų al. 46, Lentvaris, Lentvario sen., LT-25101 Trakų r.		Vilnius		(686) 35333	Cafes, Bars	C	
BILIJARA IR KO, UAB	A. Juozapavičiaus g. 6/2, LT-09310 Vilnius		Vilnius		(5) 2725565	Cafes, Bars	C	
CASINO PLANET, UAB	Kęstučio g. 4/14, LT-08118 Vilnius		Vilnius		(5) 2725385	Casino	N	RP

ČILI-7, picerija	Didžioji g. 5, LT-01128 Vilnius	Vilnius	(5) 2738759	Cafes, Bars	C
DA ANTONIO III, picerija, UAB "Barbera"	Pilies g. 20, LT-01123 Vilnius	Vilnius	(5) 2685706	Cafes, Bars	C
DU BOKALAI, kavinė, G. Kapočienės IĮ	Vasario 16-osios g. 15, LT-20131 Ukmergė	Vilnius	(340) 56635	Cafes, Bars	C
EKINSTA, kavinė-baras, AB	Vytėnio g. 46B, LT-03208 Vilnius	Vilnius	(5) 2332353	Cafes, Bars	C
EUROPOS PARKAS, EUROPOS CENTRO MUZIEJUS	Joneikiškių k., LT-15148 Vilniaus r.	Vilnius	(5) 2377077	Restaurants, Hotels	C
FORTO PICA, UAB "Dzeta"	Pilies g. 16, LT-01123 Vilnius	Vilnius	(5) 2629754	Cafes, Bars	C
GABI, kavinė, R. Tunkevičiūtės firma "Dionizas"	Šv. Mykolo g. 6, LT-01124 Vilnius	Vilnius	(5) 2123643	Cafes, Bars	C
GRAND CASINO WORLD, Casinos Europa, UAB	A. Vienuolio g. 4, LT-01104 Vilnius	Vilnius	(700) 2648830	Restaurants, Cafes, Bars, Casino	N NC
HELENA, UAB	Šiaurės g. 75/33, LT-11103 Vilnius	Vilnius	(5) 2381778	Cafes, Bars	C
J. DUBAUSKO IĮ	Šilėlio g. 4, Pabradė, Pabradės m. sen., LT-18181 Švenčionių r.	Vilnius	(387) 54450	Cafes, Bars	C
JUNMA, UAB	Žemynos g. 7, LT-06125 Vilnius	Vilnius	(5) 2479131	Cafes, Bars	C
KATPĖDĖLĖ, kavinė-baras, UAB "Plungės kooperatinė prekyba"	Viršuliškių g. 40, LT-05112 Vilnius	Vilnius	(5) 2400521	Cafes, Bars	C
KINŲ ROŽĖ, UAB	Kauno g. 15, LT-03215 Vilnius	Vilnius	(5) 2330750	Restaurants	C
LA PROVENCE, restoranas, UAB "Žemaičių lanša"	Vokiečių g. 22, LT-01130 Vilnius	Vilnius	(5) 2616573	Restaurants	N RP
LIETUVOS TELEKOMO SVEČIŲ NAMAI, UAB "Promus Vilnensis"	Vivulskio g. 13A, LT-03221 Vilnius	Vilnius	(5) 2644861	Hotels	C
LIVĖJA, UAB	Gedimino pr. 30/1, LT-01104 Vilnius	Vilnius	(5) 2618332	Cafes, Bars	C

MALIBU, naktinis klubas	Žirmūnų g. 106A, LT-09121 Vilnius	Vilnius	(5) 2776806	Cafes, Bars	C	
McDONALD'S RESTAURANTS, filialas, UAB	Gedimino pr. 15, LT-01103 Vilnius	Vilnius	(5) 2623720	Restaurants	N	RP
MONIKA IR VIKTORIJA, UAB	Skroblų g. 19, LT-03141 Vilnius	Vilnius	(5) 2334663	Cafes, Bars	C	
NOVA PICERIJA, UAB "Lantora", filialas	Parko g. 37, LT-11228 Vilnius	Vilnius	(5) 2679209	Cafes, Bars	N	NC
PALYDOVAS, UAB	Vytėnio g. 20A, LT-03229 Vilnius	Vilnius	(5) 2335384	Cafes, Bars	N	RP
PELĖDA, kavinė, Z. Varžgalienės IĮ	Vytauto g. 10, LT-20106 Ukmergė	Vilnius	(340) 63333	Cafes, Bars	C	
PRESTO, kavos ir arbatos namai, UAB "Presto prekyba"	Gedimino pr. 32, LT-01104 Vilnius	Vilnius	(5) 2621967	Cafes, Bars	N	NN
R. JUCEVIČIENĖS ĮMONĖ	Šeimyniškių g. 20, LT-09312 Vilnius	Vilnius	(5) 2723925	Cafes, Bars	C	
RIKTA, Vilniaus filialas, UAB	Gedimino pr. 12, LT-01103 Vilnius	Vilnius	(5) 2618018	Cafes, Bars	C	
S. SASNAUSKO FIRMA	Žuvėdrų g. 52/9, LT-10303 Vilnius	Vilnius	(5) 2762296	Cafes, Bars	N	NC
SAULĖS NAMAI, viešbutis	Saulės g. 15/23, LT-10310 Vilnius	Vilnius	(5) 2106112	Hotels	C	
SENDERA, UAB	Naugarduko g. 12/1, LT-03225 Vilnius	Vilnius	(5) 2162121	Cafes, Bars	N	N/A
SKRAJOS KAVINĖ, UAB "Jubera"	Naugarduko g. 55a, LT - 03204 Vilnius	Vilnius	(698) 76493	Cafes, Bars	C	
STIKLIŲ VIEŠBUTIS - RESTORANAS, UAB	Gaono g. 7, LT-01131 Vilnius	Vilnius	(5) 2649595	Hotels	N	RP
TAŠKAS, kavinė, UAB "Už tave"	A. Smetonos g. 2, LT-01115 Vilnius	Vilnius	(5) 2121282	Cafes, Bars	C	
TREČIAS BROLIS, kavinė, UAB "Aruca"	K. Sirvydo g. 6, LT-01101 Vilnius	Vilnius	(5) 2612404	Cafes, Bars	C	

V. LEONAVIČIAUS IĮ	Tujų g. 17A, LT-20147 Ukmergė	Vilnius	(340) 50483	Cafes, Bars	N	NC
VILNIAUS BIČIULIŲ AVILYS, UAB	Gedimino per. 5, LT-01103 Vilnius	Vilnius	(5) 2624835	Restaurants	C	
VOLDANAS, UAB	Dzūkų g. 35, LT-02164 Vilnius	Vilnius	(5) 2384746	Cafes, Bars	N	RP
ŽVEJŲ SMUKLĖ, kavinė, J. Volonec IĮ	Liubarto g. 3, LT-08118 Vilnius	Vilnius	(5) 2754990	Cafes, Bars	C	



Appendix 5. Descriptive Statistics of the Companies Which Participated in the Survey

How many employees work in your company (on average per year, including employees in part-time jobs)?

<i>Answer</i>	<i>Number of companies</i>
Less than 10	51
10-49	42
50 and more	3

In your company, what is the percentage of employees receiving statutory minimum wage? (currently 500 Lt for a full-time position)

<i>Answer</i>	<i>Number of companies</i>
Less than 10%	10
10-50%	15
More than 50%	71

Is it difficult to find employees (waiters, bartenders, etc.) with appropriate qualifications in your town (village)?

<i>Answer</i>	<i>Number of companies</i>
Yes	50
No	35
I don't know	12

How did the turnover of your company change in 2004 as compared to previous year?

<i>Answer</i>	<i>Number of companies</i>
Considerably decreased	7
Slightly decreased	16
Did not change	31
Slightly increased	24
Considerably increased	9
Do not know/Did not answer/(N/A)	9

How did the gross profit of your company change in 2004 as compared to previous year?

<i>Answer</i>	<i>Number of companies</i>
Considerably decreased	9
Slightly decreased	14
Did not change	27
Slightly increased	19
Considerably increased	12
Do not know/Did not answer/(N/A)	15

Counties

<i>Answer</i>	<i>Number of companies</i>
Alytus	6
Kaunas	14
Klaipėda	16
Marijampolė	2
Panevėžys	7
Šiauliai	8
Tauragė	2
Telšiai	4
Utena	6
Vilnius	31

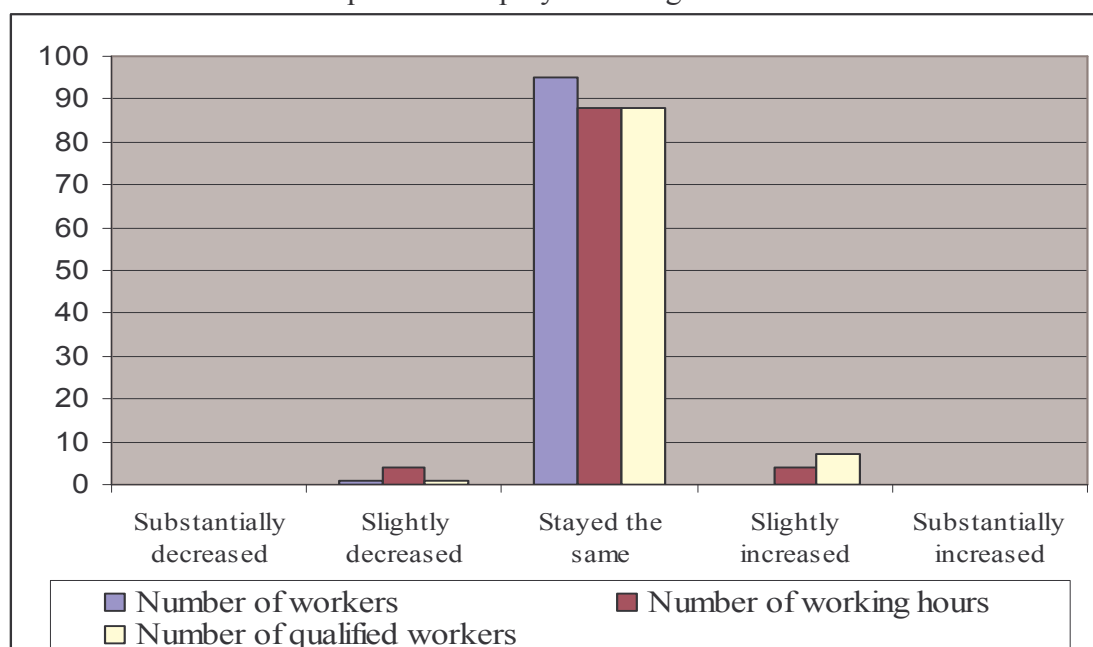
Location

<i>Answer</i>	<i>Number of companies</i>
5 major cities (Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys)	51
Small settlements	45

Appendix 6. Results of the Survey: The Effects of Minimum Wage Increase in Lithuania from LTL 450 to 500 (Part 2)

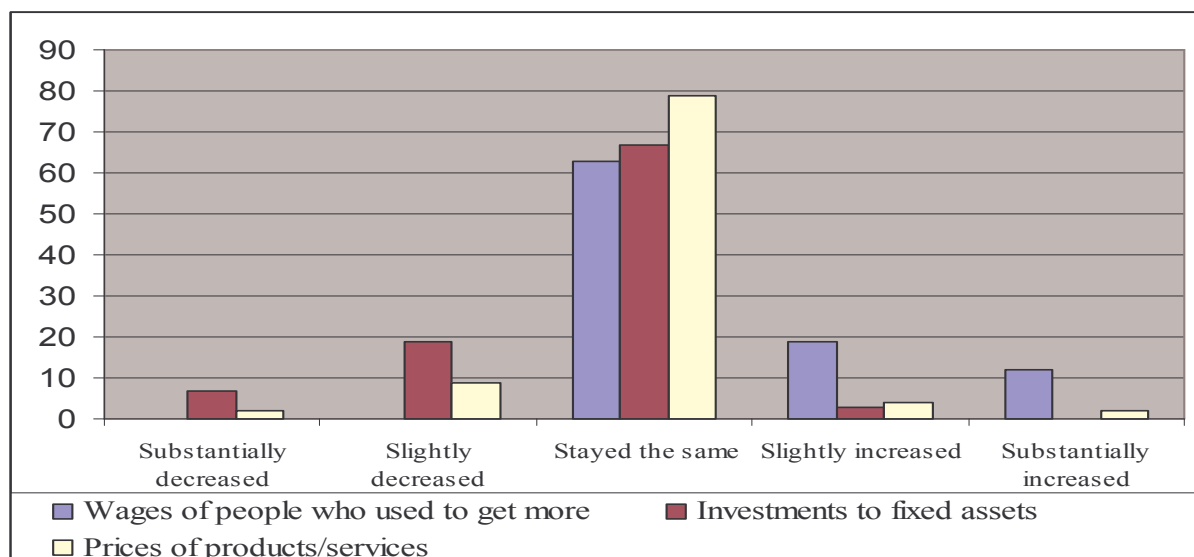
Answers to the questions:

1. In your company, how did the number of employees change due to increase in SMW?
2. How did the number of working hours of employees change?
3. How did the number of qualified employees change?



Answers to the following questions:

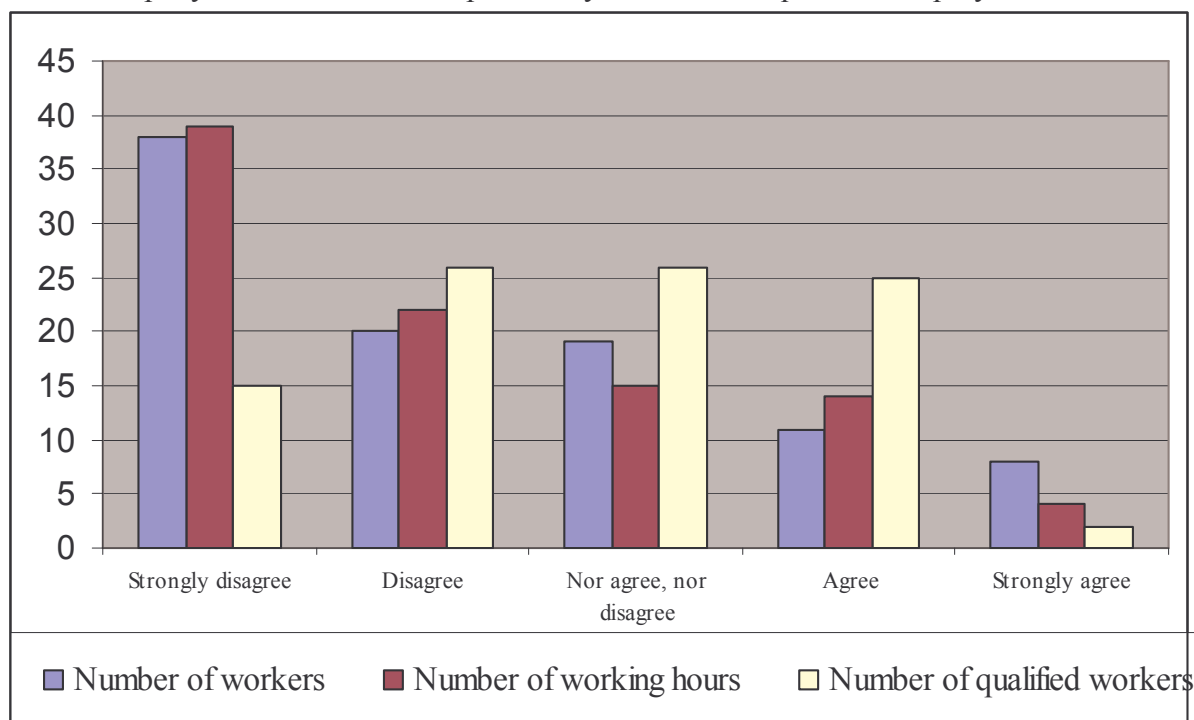
4. How did the wages of employees who used to get higher wage than SMW change?
5. How did the investments to fixed assets change?
6. How did the prices of goods/services change?



Appendix 7. Results of the Survey: The Effects of Possible Increase of SMW from LTL 500 to 600 (Part 3)

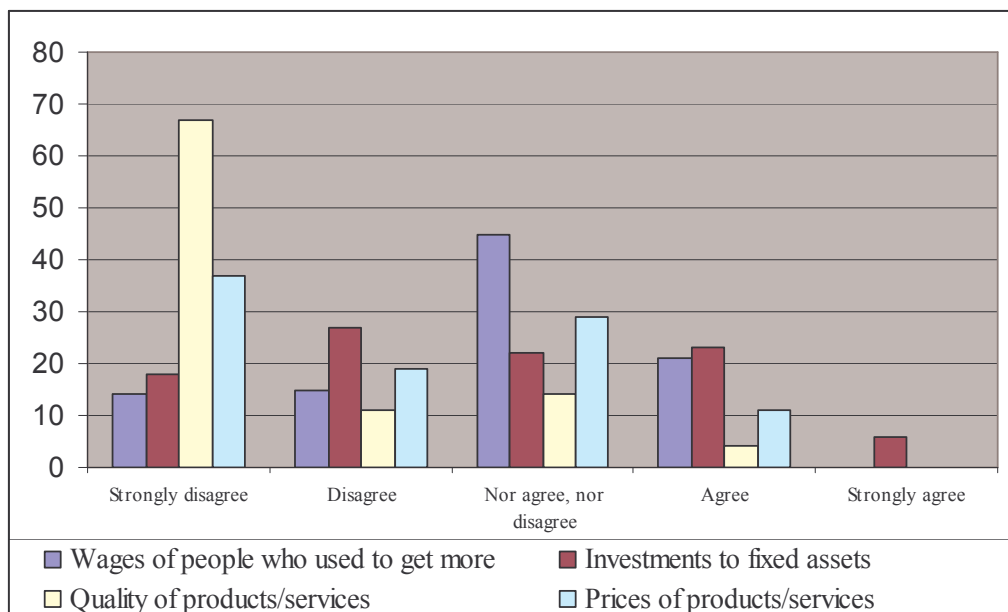
Answers to the following questions:

1. The company would consider the possibility to reduce the number of employees
2. The company would consider the possibility to reduce the working hours of employees
3. The company would consider the possibility to hire more qualified employees



Answers to the following questions:

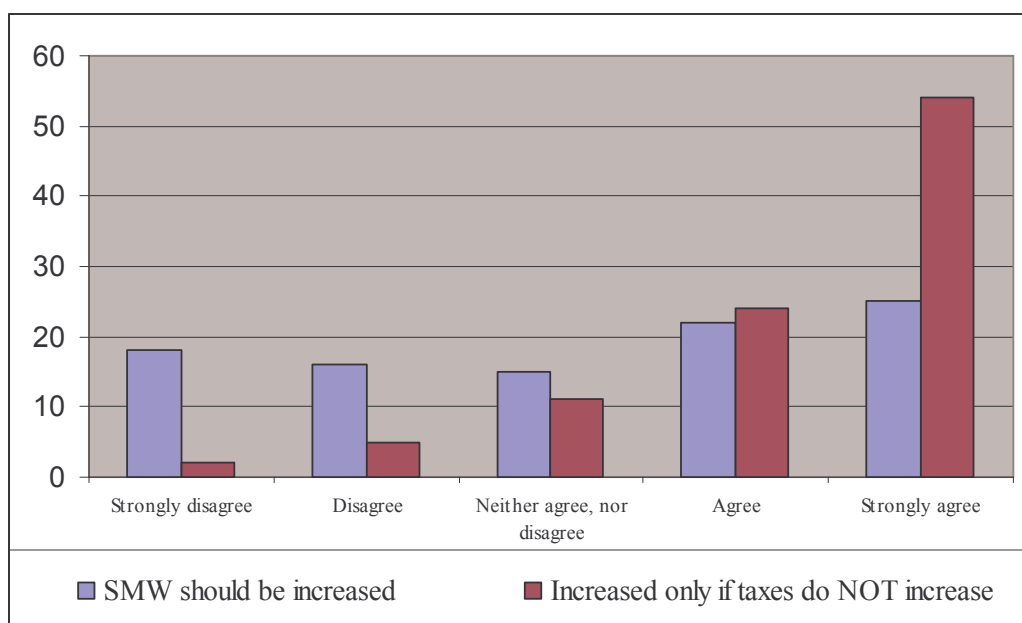
4. The company would consider a possibility to increase the wages of those employees who used to get higher wage than SMW
5. The company would consider a possibility to reduce the investment to fixed assets
6. The company would consider a possibility to reduce the quality of products/services
7. The company would consider the possibility to increase the prices of products/services



Appendix 8. Results of the Survey: Your Opinion About the Minimum Wage Legislation (Part 4)

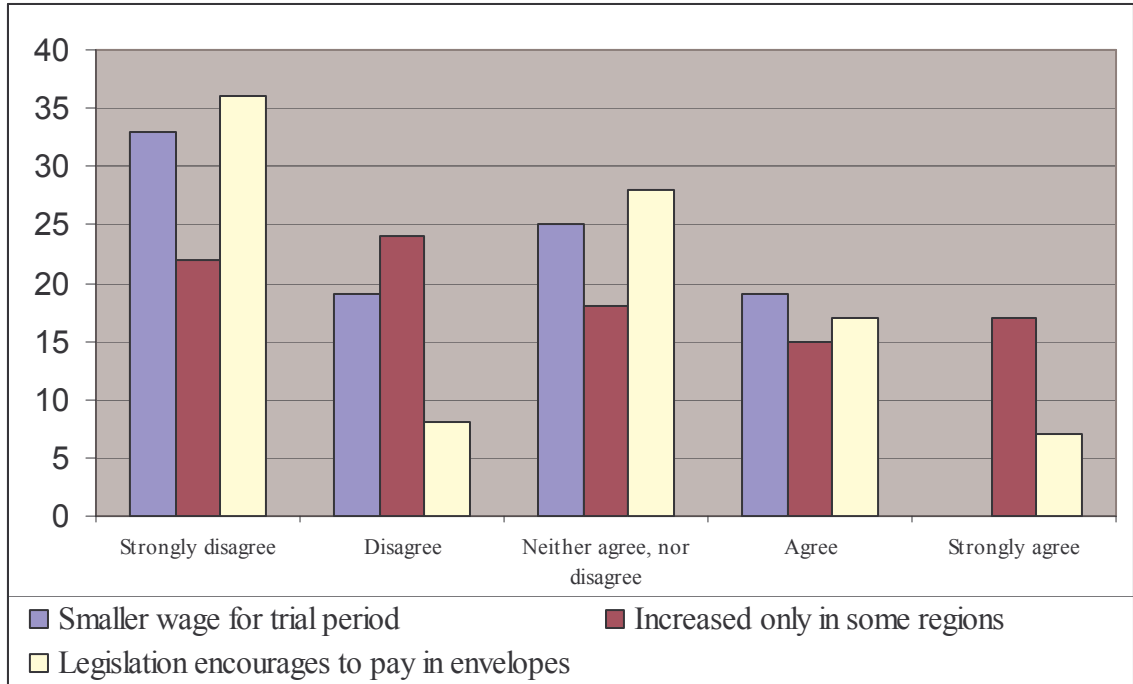
Answers to the following questions:

1. SMW should be implicitly increase in 2005
2. SMW could be increased if it does not increase the tax burden



Answers to the following questions:

3. It should be allowed to pay lower wage than SMW during the trial period (up to 3 months)
4. SMW should be increased to LTL 600 but not in all counties of Lithuania
5. Minimum wage legislation increases incentives to pay wages “in envelopes”



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