A-Level Edexcel Economics: Labour Market Past Paper Answers

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Question 1

Answer	Mark
A • Definition or understanding of NMW e.g. legal minimum that employers must pay to workers (**1 mark**). • Original unemployment / excess supply N_1N_3 **(1 mark)** • New unemployment / excess supply N_3N_4 **(1 mark)** The above two points may be shown on the diagram • Employment falls / demand for labour falls from N_1 to N_3 **(1 mark)** • Supply of labour increases from N_3 to N_4 **(1 mark)** Also award: ➢ Explanation that an increase in NMW may increase production costs and also increase incentives to work **(up to 2 marks)**	**(1)** **(3)**

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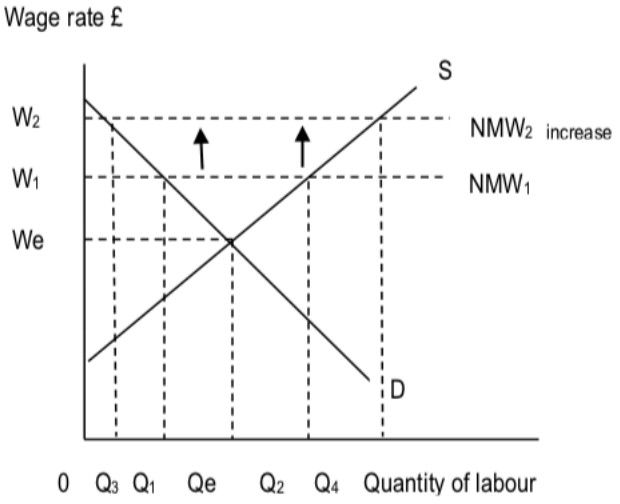
Question 2

Answer	Mark
B (1 mark) • Definition of national minimum wage (a legal / floor wage below which the hourly wage rate cannot fall). (**1 mark**) • Quantity supply of labour increase due to a greater financial incentive to work / the gap between benefits and a low paid job has increased. (**1+1 marks**) • The opportunity cost of leisure time has risen (**1 mark**) • Award for suitable diagrammatic analysis depicting the original and the new NMW / reference to an extension in supply of labour (from Q_2 to $Q_{4)}$ (**1+1 marks**)  	

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Question 3

Answer	Mark
D (1 mark) • Definition of occupational mobility of labour (ability of labour to move from one occupation or job to another occupation or job / or definition of occupation immobility of labour). (**1 mark**) Steel workers losing their jobs is an example of structural unemployment where there is a mismatch between the skills of labour and the skills required to fill available jobs. (**1 mark**) • Retraining schemes offer the opportunity for develop new skills suitable for job vacancies available. (**1 mark**) **Rejection marks** • Option A incorrect as this will improve capital mobility. (**1 mark**) • Option B incorrect as higher benefits may act as a disincentive for the unemployed to work as there is less income differential compared to income from work. (**1 mark**) • Option C incorrect as a relocation subsidy will increase the geographical mobility of labour. (**1 mark**)	**(4)**

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Question 4

Answer	Mark
Answer B (1 mark) • Definition of a normal good (e.g. as real income increases, so will demand increase for a good **OR** as real income decreases, so will demand decrease for a good) (**1 mark**) • A fall in real income will cause a decrease in demand for new houses. This will cause price of housing to fall (**1 mark**). • A decrease in demand for housing will cause a decrease in demand for bricklayers so wages will fall (**1 mark**). • Labour is a derived demand – its demand is derived from the demand for the product it makes (**1 mark**). • Application to **both** diagrams, showing an inward shift in demand for new housing and bricklayers (**1 mark**).	**(4)**

Question 5

Answer	Mark
Answer D (1 mark) • Explanation of the geographical mobility / immobility of labour (e.g. the ability / inability of labour to move from one location to another in taking work) (**1 mark**). • A major obstacle of geographical labour mobility is imperfect market knowledge of available jobs / asymmetric information **OR** by improving market knowledge of job vacancies, labour mobility will improve (**1 mark**). • Examples of improving market information (for example, increase funding of Job Centres / more staffing / improve location of Job Centres / relocation grants) (**1+1marks**).	**(4)**

Question 6 (a)

Answer	Mark
Knowledge and Application (up to 4 marks) K = Definition of unit labour costs –labour cost/output or similar definition (**2** marks for accurate definition) Identification that unit labour costs have risen **(1)** As labour costs rose at a faster rate (6.2%) **(1)** than labour productivity (4.5%) **(1)** Also accept: Relative (to OECD average) unit labour costs decreased **(1)** with correct data use **(2)**	**(4)**

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Question 7

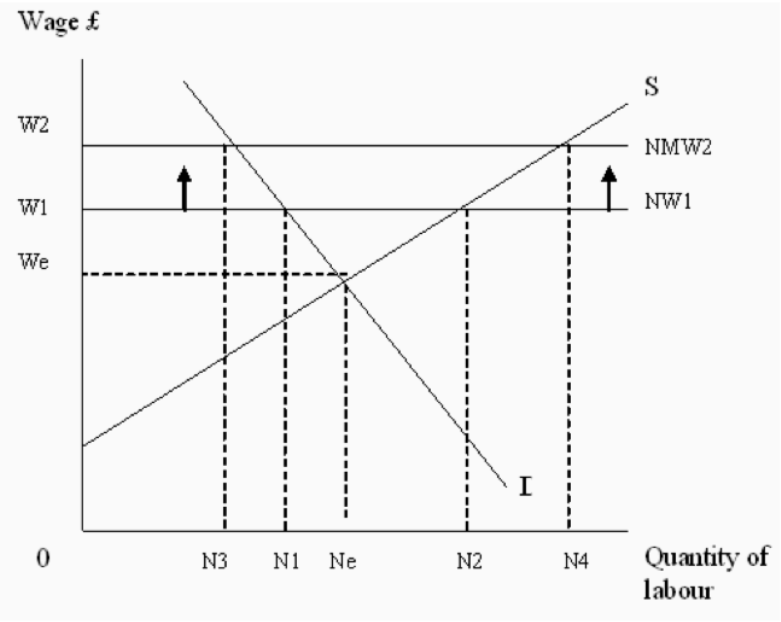
(a)

Answer	Mark
KAA = 4 marks • Definition of NMW [the legal minimum hourly rate of pay employers can set] (**1 mark**) • Data reference to extract 1 e.g. the actual increase in minimum wage or the level of minimum wage or increase in food and fuel prices (**1 mark**) • Identification of a reason for government intervention to impose NMW (**1 mark**) and its development (**up to 3 marks**). Reasons might include: ➢ **Reduce poverty / inequality / exploitation**: the NMW may help poor people who are in low paid job / create fairer society / help part-time or female or young unskilled workers / maintain incentive to work. ➢ **Reduce voluntary unemployment**: the increase in NMW makes it worthwhile for low paid to remain in their jobs / fill low paid job vacancies / prevent unemployment trap or poverty trap / maintain differential between low paid work and benefits such as Job Seekers' Allowance ➢ **Inflation / cost of living**: to keep up with cost of living (higher fuel and food prices) / so that in real terms the NMW remains the same / to afford basic necessities. ➢ **Earnings growth**: to keep up with growth in average earnings / so in relative terms the NMW keeps its value / maintain incentive for low paid to remain in their jobs ➢ **Training & productivity**: the increase in NMW may give greater incentive for employers to train low paid staff / to raise productivity levels / and so justify the wage increase. **NB: Accept an overlap in the explanation of a reason offered.**	**(4)**

(b)

Answer	Mark
KAA = 6 marks • Definition of government failure (government intervention which leads to a net welfare loss / inefficient allocation of resources) (**1+1 marks**). Also accept idea of government intervention to correct market failure but it makes things worse (**1 mark**). **NB a maximum of 2 marks available for definition.** • Data reference to tax evading activities or unrecorded cash payments (**1 mark**) • Identification of tax evading activities being illegal (**1 mark**) • Hairdressers not declaring all their income / less tax revenue to the government (**1+ 1 marks**). • Employers may pay below NMW rate / use of example such as immigrants or young unskilled / less tax revenue to the government (**1 + 1 + 1 marks**). • Weak government implementation of NMW / monitoring and enforcement of hairdressers paying below the minimum wage (**1+1 marks**). • An increase in the NMW may increase unemployment in hairdressing / and also reduce tax revenue or increase in benefits as without government intervention more staff may be employed (**1+1 marks**). Accept 'higher order analysis' which suggests the government failure is not significant since: the NMW increase is small / data reference to hourly wage increases of 7p per hour / not worth the risk of fines for breaking law / especially as severe penalties / difficult to obtain staff / 87% of employees are paid above NMW / labour productivity still above wage cost / so profit made on employees even with higher wage. (**2 marks**) **NB if no reference to informal economy or tax evading activities award up to 2 marks for the link with unemployment and loss of government revenue**	**(6)**

(d)

Answer	Mark
KAA = 8 marks • Data reference of the actual increase or level of the minimum wage e.g. 7p, 1.2% or £5.80 an hour / National Hairdressers Federation believes significant job losses will occur in current economic climate (**1 + 1 marks**) • The increase in NMW increases costs / lower profits or even losses/ firms may lay off workers or exit industry (**1+1 + 1 marks**). • Diagram of a labour market which shows (**up to 5 marks**): ➢ Initial diagram of labour market (both demand & supply curves) (**1**) ➢ Original NMW line (anywhere on diagram) (**1**) ➢ New and higher NMW line (anywhere on diagram) (**1**) ➢ Demand for hairdressers contract (fall from N1 to N3) or original excess supply (N1/ N2) (**1**). ➢ Supply for hairdressing work extends (from N2 to N4) or new excess supply (N3 – N4) (**1**)  **NB: Candidate may show NMW below or at free market wage equilibrium but likely to gain a maximum of 3 marks for the diagram.** **NB: if no labour market diagram award a maximum of 5 marks in this section.** **Evaluation (2+2+2 or 3+3 marks)**	

- Impact on job losses depend upon:
  - **Magnitude** of NMW increase: the extract indicates this is very low at just 7p per hour (6p and 4p respectively for 18-21 year olds and 16-17 year olds) / so not much impact on job losses.
  - Wage or price elasticity of demand for labour: if inelastic then few jobs lost / if elastic than more jobs lost / reference can be made to diagram.
  - It depends on wage costs as a proportion of total costs: if low then easy to absorb the higher wages costs / if high then harder to absorb the wage rise / hairdressing is quite labour intensive with 126,000 employed in 2008.
  - Most hairdressers are paid above NMW so little impact of the increase in NMW / data reference to just 27% being paid at the NMW or 73% paid above NMW / implies support for argument made by Brendan Barber, TUC general secretary (this could be shown by NMW being drawn so it remains below the free market wage).
  - Trainee hairdressers are not subject to national minimum wage / despite extract implying trainee places may be cut.
  - Employment in hairdressing actually increased by 5000 in 2008 / despite previous increases in the NMW.
  - Economic recovery now underway so easier for firms to pass on extra wage costs to customers.
  - Firms may decide to employ people illegally below the NMW / so limited impact on job losses if employees accept situation.
  - Discussion of short run and long run implications.

Quality of written communication skills will be assessed in this question based on the candidate's ability:

- To present an argument and conclude on the basis of that argument.
- To organise information clearly and coherently.
- To use economics vocabulary appropriately.
- To use grammar, spelling and punctuation appropriately

(14)

(e)

Answer	Mark
KAA = 8 marks Factors influencing the supply of labour to any **one** occupation (**2+2+2+2 marks or 3+3+2 marks**). ➢ The wage rate or earnings / as the wage rate increases then so too will the supply of labour rise due to incentive of higher pay. ➢ Net advantages to an occupation / these include tips, hours of work, cleanliness of environment, career progression, job satisfaction, private pension scheme, sick pay and paid holidays. ➢ The level of qualifications, training or work experience required for a particular occupation / the higher the qualifications, training and work experience required, the lower the supply of labour. ➢ Income tax or national insurance contributions / the higher the rates of tax the lower the potential supply of labour. ➢ Government social security benefits such as Job Seekers Allowance and Housing benefit / the higher the benefits, the lower the supply of labour to low paid occupations. ➢ Higher university tuition fees or scrapping Education Maintenance Grants / may lead to increase in supply of school leavers to labour market. ➢ Raising of school leaving or retirement age / lead to an increase in supply of labour. ➢ Net migration flows into UK / the single European market has increased net migration flows into the UK. ➢ Trade Unions affecting rates of pay and other work conditions / so increasing supply of labour. ➢ Accept factors influencing the geographical supply of labour such as house prices. **NB Do not accept the NMW.** **Evaluation (2+2+2 or 3+3 marks)**	

➢ **Magnitude** of factors affecting supply, for example, tips are substantial in hair dressing or, dangers involved in certain occupations (armed forces) are so great as to discourage supply. ➢ **Prioritise** between factors: for example, job satisfaction or career progression may be more important than pay, or flexibility in hours of work could be more important than pay. ➢ **Time factor:** For some occupations where significant training / qualifications are involved, supply might be limited in the short run but increase in the long run. Discussion of elasticity of supply is acceptable here. ➢ **State of economy:** many people may be discouraged from seeking work in a recession but encouraged to seek work in an economic recovery. ➢ Accept discussion of income and substitution effects / backward sloping supply curve. **Quality of written communication skills will be assessed in this question based on the candidate's ability:** • To present an argument and conclude on the basis of that argument. • To organise information clearly and coherently. • To use economics vocabulary appropriately. • To use grammar, spelling and punctuation appropriately.	**(14)**

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Question 8

(a ii)

Answer	Mark
Explanation KAA up to 4 marks • Demand for car workers will decrease (1) • Decrease in employment of car workers (1) • Decrease in wage rate of car workers or pay freeze (1) NB: Alternatively this may be shown by diagrammatic analysis of the labour market depicting an inward shift in the demand for labour / lower wages and employment (award 3 marks). Do not double award for both explanation and diagram.	

NB: If two diagrams are shown - one for the car market and one for the car worker labour market which shows a decrease in demand for both (award 4 marks). • Labour is a derived demand / demanded not for its own sake but for the goods it produces (1+1). • Data reference e.g. Nissan announced 1200 redundancies / Toyota has halved production shifts / Honda has reduced wages / GM may close its plants (1). • Change in working conditions e.g. shorter working week / flexible hours / sabbaticals / enforced holidays through temporary closure / underemployment (1+1). Evaluation (2 marks) • Magnitude of decrease in demand - very significant here. It may require retraining to provide new skills for car workers so they can move into different occupations. • Short run and long run implications e.g. Vauxhall may be seeking to hold on to its workforce by offering sabbaticals in anticipation of an upturn in sales. • Discussion on elasticity of demand or supply of labour. • Accept idea of an increase in demand for second hand car sales people or car mechanics. • Accept idea that wage rates may not fall too much due to the national minimum wage / strength of trade unions. Government grants / loans may reduce impact of job losses.	(6)

(b)

Answer	Mark
Explanation of KAA up to 6 marks Candidates may refer to both geographical and occupational mobility / immobility of labour.	

• Explanation / understanding of geographical immobility / mobility of labour (difficulty in relocating to other regions to take available work) (1) • Geographical mobility of labour will depend on individual e.g. age / family circumstances / knowledge of available jobs in other localities / house price differentials and rental differentials / removal costs (1+1+1). • Data reference e.g. Magna motor vehicle plants at Luton and Ellesmere Port - areas of high unemployment and so a labour immobility problem (1). • Explanation / understanding of occupational immobility / mobility of labour (difficulty in car workers taking available work in different occupations) (1) • Occupational mobility may be quite low as car work is highly specialised / occupational mobility is low and so retraining courses may be required for car workers / lack of government funds available for retraining / discussion on transferable skills (1+1+1). • Discussion on temporary plant closures - which may have little effect on mobility of labour if they reopen (1). Use of real life example (1)	(6)