AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.1.6 THE LABOUR MARKET

SCORE	PERCENTAGE
/823	%

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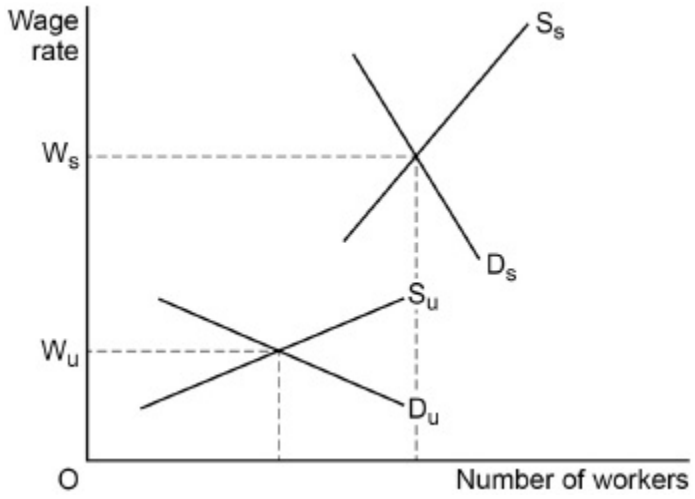
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1. **Extract C** (lines 4–5) states that, as a result of trade union action, 'The hospital trust increased their £8.21 minimum wage to the London Living Wage of £10.75.'

With the help of a diagram, analyse how a trade union might achieve higher pay for its members.

[9 marks]

2. The diagram below shows the demand and supply curves for skilled labour (D_s and S_s) and unskilled labour (D_u and S_u) and the wage differential (W_s–W_u) between the two types of labour.



All other things being equal, which one of the following is most likely to cause a decrease in the wage differential?

A A fall in the demand for unskilled workers ⬭

B A fall in the size of the labour force ⬭

C An increase in the demand for skilled workers ⬭

D An increase in the proportion of the labour force with a degree ⬭

[1 mark]

3. **Extract B** (lines 13–14) states: 'It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation's workers'.

Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy.

[25 marks]

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4. The table below shows how a firm's total and average product change, in the short run, with different inputs of labour.

Number of workers	Total product	Average product
4	128	32
5	260	52
6	420	70
7	497	71
8	528	66

Diminishing marginal returns to labour set in when the firm employs

A 5 workers. ⬭

B 6 workers. ⬭

C 7 workers. ⬭

D 8 workers. ⬭

[1 mark]

5. The Resolution Foundation estimates that 1% of adults, about 488 000 people, own 14% of the UK's assets – worth about £11 trillion. At the other end of the scale, 15% of adults, about 7.3 million people, either own no assets at all, or are in debt. Meanwhile, income is also unequally distributed, but not to the same extent as wealth.

Assess the view that, in the UK, the consequences of wealth inequality are more damaging than the consequences of income inequality.

[25 marks]

6. **Extract E** (lines 14–16) states that 'The market economy is not going to create the jobs by itself for those workers who are most affected by the change.'

Extract F (lines 4–5) states that 'taxing productivity-enhancing tools like robots or machines makes no economic sense.'

Use the extracts and your own knowledge of economics to evaluate whether governments should allow markets to respond freely to the opportunities and challenges presented by technological progress, without any state intervention.

[25 marks]

7. **Extract E** (lines 4–5) claims that workers in the 18th century saw wages rise in line with productivity.

With the help of a diagram, explain how advances in modern technology are likely to lead to rising wages in some industries.

[9 marks]

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8. All other things being equal, which one of the following is most likely to cause the marginal revenue product of labour curve in the shoe manufacturing industry to shift to the right?

A A decrease in money wage rates in the shoe industry. ⬭

B A decrease in the number of workers employed in the shoe industry. ⬭

C An increase in the market demand for shoes. ⬭

D An increase in the number of firms competing in the shoe industry. ⬭

[1 mark]

9. All other things being equal, the demand for labour is more likely to be wage elastic if

A it is difficult to substitute capital for labour. ⬭

B the cost of labour is a low percentage of total costs. ⬭

C the final product has a high price elasticity of demand. ⬭

D the supply curve for labour is wage elastic. ⬭

[1 mark]

10. **INVESTIGATION**

Scenario

You are an economist working for an organisation which investigates ways to improve the standard of living of UK citizens.

You have been asked to review changes in living standards and inequality since the 2007–2008 financial crisis.

As part of this investigation, you are to provide answers to the following question.

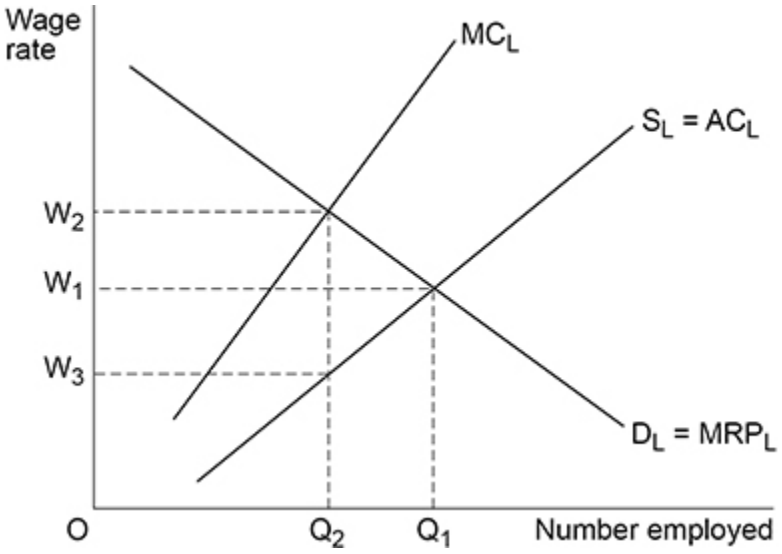
Study **Extracts A**, **B**, and **C**, and then use these and your knowledge of economics to help you answer this question. There is also a news report, **Extract D**, which is to be used with the other extracts to help you answer this question.

After considering **Extract D**, and the original evidence in **Extracts A**, **B** and **C**, would you recommend that the government implement a further substantial increase in the National Living Wage? Justify your recommendation.

[25 marks]

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11. The graph shows the market demand for labour (DL = MRPL), the market supply of labour ($S_L = AC_L$), and the marginal cost of labour (MCL), in a particular industry. The employer in this industry is a monopsonist.



From the graph above, it can be concluded that, in the absence of a trade union or a minimum wage, the firm will employ

A OQ_1 workers at a wage of OW_1. ⬭

B OQ_2 workers at a wage of OW_1. ⬭

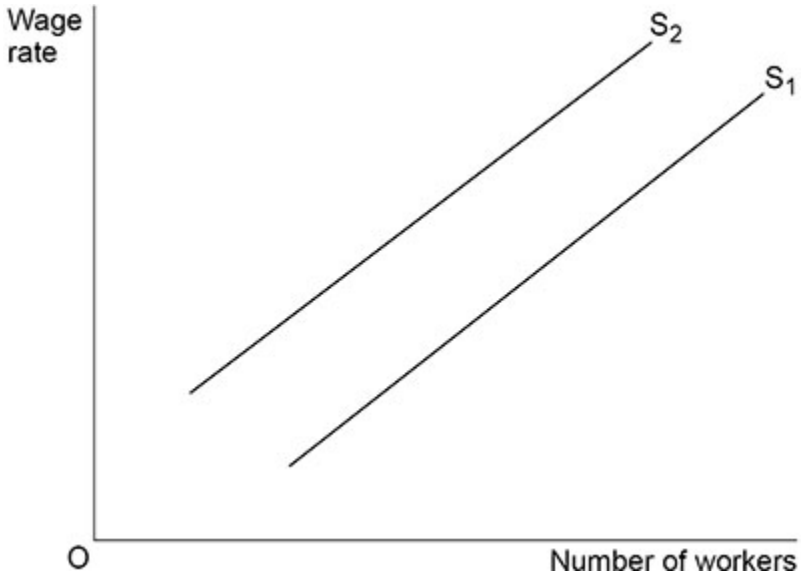
C OQ_2 workers at a wage of OW_2. ⬭

D OQ_2 workers at a wage of OW_3. ⬭

[1 mark]

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12. The diagram below shows two labour supply (S_1 and S_2) curves for workers qualified to the level necessary to be employed in a particular industry.



All other things being equal, the shift of the supply of labour curve from S_1 to S_2 is most likely to be explained by a reduction in

A job security for qualified workers in the industry. ⬭

B the average wage rate in the industry. ⬭

C the productivity of workers in the industry. ⬭

D the qualifications required by the industry. ⬭

[1 mark]

13. **Extract F** (lines 1–3) states: 'There are aspects of market failure in the social care sector, though some argue that inappropriate government intervention and a lack of funding are the main reasons why the system is failing to deliver high quality care.'

Using the extracts and your knowledge of economics, assess policies that might be used to improve the provision of social care in the UK.

[25 marks]

14. Explain how the data in **Extract D** (Figure 2) show that there is likely to be substantial upward pressure on the wages of care workers by 2041.

[4 marks]

15. **Extract E** (lines 5–7) states: 'Until the 1990s, almost all workers in the care sector were employed by the government, which acted as a monopsonist by keeping wages low.'

With the help of a diagram, explain how a monopsonistic public sector can lead to low pay for social care work.

[9 marks]

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16. An increase in the national minimum wage may be used to make the distribution of income more equal. Such a policy is most likely to be effective when the elasticity of demand for labour in low-paid work is

A elastic. ⬭

B inelastic. ⬭

C perfectly elastic. ⬭

D unitary elastic. ⬭

[1 mark]

17. The average university graduate can expect to earn more over their working life than the average school leaver.

This is most likely to be explained by

A discrimination in the labour markets for non-graduates. ⬭

B the higher marginal revenue productivity of graduates. ⬭

C the higher price elasticity of demand for graduates. ⬭

D the relatively low elasticity of supply of non-graduates. ⬭

[1 mark]

18. **Extract E** (lines 3–4) states: 'significant pay gaps remain, even when education and occupation are taken into account, particularly for those born outside the UK.'

Using the extracts and your knowledge of economics, evaluate possible government policies to reduce the ethnic pay gap.

[25 marks]

19. **Extract B** (lines 16–18) states that, 'Gig economy defenders claim that today's flexible labour markets offer modern workers the opportunity to move freely between jobs and this gives them more choice over their working hours.'

Assess the view that government intervention in the UK labour market is necessary to protect the interests of people who are working in the gig economy.

[25 marks]

20. **Extract F** (lines 18–19) states: the Government 'could also take steps to recognise foreign qualifications, thus removing obstacles for well-qualified foreign-born workers.'

With the help of a diagram, explain how UK firms not recognising foreign qualifications may lead to some ethnic groups receiving lower pay.

[9 marks]

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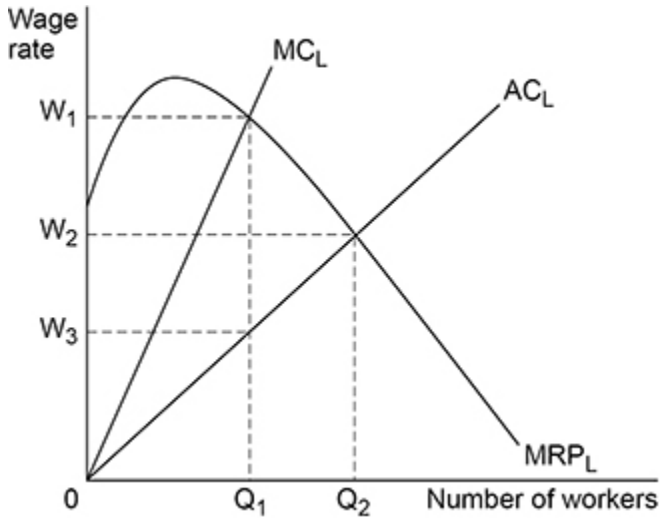
21. Explain how the data in **Extract D** (Figure 2) show that the ethnic pay gap is more significant for older ethnic minority employees.

[4 marks]

22. Using the data in **Extract D** (Figure 1), calculate how much a worker of Bangladeshi ethnicity earned on average in 2018, given that a White British worker earned £28 677. Give your answer **to the nearest pound**.

[2 marks]

23. The diagram below shows the marginal cost (**MC_L**), average cost (**AC_L**) and marginal revenue product (**MRP_L**) curves for labour in a specialised computer programming industry.



Following a series of mergers between firms in this industry, a single large firm remains as a monopsony employer.

Which one of the following is the most likely to result from a competitive labour market being replaced by a monopsony employer?

A The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$. ⬭

B The total amount paid in wages will increase from $(W_3 \times Q_1)$ to $(W_1 \times Q_1)$. ⬭

C The wage rate will fall from W_1 to W_2. ⬭

D The wage rate will increase from W_3 to W_2. ⬭

[1 mark]

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24. **Essay 3**

Data from the Organisation for Economic Co-operation and Development (OECD) suggest that countries with very different levels of pre-tax income inequality often have similar levels of post-tax income inequality.

Evaluate whether the best way to reduce inequality in disposable income is to reduce differences in pre-tax incomes rather than through taxes and welfare benefits.

[25 marks]

25. **Essay 3**

Data from the Organisation for Economic Co-operation and Development (OECD) suggest that countries with very different levels of pre-tax income inequality often have similar levels of post-tax income inequality.

Explain the main causes of inequality in the distribution of pre-tax incomes.

[15 marks]

1. Explain how marginal revenue product can help to determine **both** wage rates **and** employment in particular occupations.

[15 marks]

2. '…any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation' (**The Global Context Extract C**, lines 21–23).

Using the data and your economic knowledge, evaluate whether governments, such as those of the UK or China, should intervene in labour markets to increase trade union membership.

[25 marks]

3. Although there have been laws against wage discrimination in the UK for many years, women's average wages are still about 20% lower than those of men.

Assess the view that increased female membership of trade unions would be the most effective way to raise women's earnings.

[25 marks]

4. Although there have been laws against wage discrimination in the UK for many years, women's average wages are still about 20% lower than those of men.

Explain the factors that might account for the continuing difference between male and female earnings.

[15 marks]

5. 'The European Union (EU) wishes to improve the mobility and flexibility of labour' (**The European Union Context Extract F**, line 6).

Evaluate the possible **costs** and **benefits** for the UK economy of the free movement of labour within the EU.

[25 marks]

6. **The European Union Context Extract E** gives examples of wage differentials.

Explain what is meant by the term 'wage differentials' **and** analyse **two** reasons, suggested by economic theory, why wage differentials occur.

[9 marks]

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7.

THE EUROPEAN UNION CONTEXT

Extract E: Wage differentials in the UK in 2008

In 2008, the average doctor in general practice earned £105 000 and, while the average earnings of dentists doing NHS work were £89 000, over 700 dentists earned more than the Prime Minister, who earned £190 000. The Lord Chief Justice earned £236 000 and the Director-General of the BBC earned £816 000. The average annual earnings of all UK workers in full-time employment was around £30 000. Someone with a normal full-time working week on the national minimum wage would have earned about £11 000 over the year.

Source: news reports, 2009

8.

Using the data and your economic knowledge, evaluate the view that intervention in the fishing industry by the EU is unlikely to correct market failure but is likely to result in government failure in **both** UK product markets **and** UK labour markets.

[25 marks]

9.

THE EUROPEAN UNION CONTEXT

Extract C: Quantity and value of fish landed in UK ports, all species

	2003	2006	2009	Year Y (forecast)
Quantity of fish (tonnes)	700 000	530 000	500 000	400 000
Index of quantity of fish	140	106	100	**?**
Value (£ million)	475	590	611	620
Index of value of fish	78	97	100	101

Sources: official statistics and industry information, 2010

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10. THE EUROPEAN UNION CONTEXT

Extract D: Changing markets and EU policy: the case of Grimsby

Deep sea fishermen have been called the last of the hunter-gatherers. They chase a scarce natural resource which is not farmed or domesticated. While there is pressure to achieve economies of scale, large super-efficient factory ships are in danger of eradicating the very raw material upon which they rely. The market for fish operates efficiently in many ways, with buyers and sellers who have good knowledge of the product and of prices. However, at the European Union level, a great deal of time and money is spent on trying to reduce failures in this market for fish.

Marine scientists have said that, without government intervention, fish stocks will collapse completely by 2050 and that intervention is necessary to prevent various market failures. Sea fish are not a public good, although they tend to be treated as one largely due to a lack of property rights. For the past 30 years, the national fisheries of EU member states within Community waters have been governed by the Common Fisheries Policy (CFP). The CFP includes measures which are aimed at conservation by regulating the amount of fish taken from the sea, controlling the fishing methods that are used, and policies for matching supply and demand. Policies include quotas and restrictions on the times that boats can spend at sea. Trawler captains usually operate as small business entrepreneurs, often with expensive loans, and have costs to pay even when a boat is laid up in harbour. New boats cost about £25 million and EU licences can insist that, when taken out of service, the boats are destroyed. Ultimately, these boats have to be efficient enough to catch sufficient fish to earn a profit during the equivalent of only two months at sea each year.

The CFP has been widely criticised. For example, critics claim that quotas are wasteful since, if too many fish are caught, perfectly edible fish have to be dumped at sea rather than brought ashore. On the other hand, supporters of the CFP would argue that it gives hope of avoiding the collapse of stocks or even the complete extinction of some species.

In the 1950s, deep sea fishing was a multi-million pound business and Grimsby in North Lincolnshire was the largest fishing port in the world. Generations of families found employment in fishing and its related industries, such as food manufacture. The UK's first frozen 'fish finger' was produced in Grimsby in 1955. Demand in product markets leads directly to a derived demand in labour markets and the CFP has had a massive impact on towns such as Grimsby.

Nationally, fisheries represent well under one per cent of the UK economy. However, their effects on local and regional labour markets are much greater than this figure would suggest. Workers in the fishing industry tend to be immobile occupationally, in terms of their experience and skills, and geographically, in terms of where they are prepared to live and work.

In 1964, 22 000 fishermen were employed in the UK. This fell slowly to 21 000 in 1994 and then more rapidly to 12 000 by 2009. While fishing has been in decline for many years, Grimsby retains several major companies which produce some of the best known brands of fish and other frozen food products in the UK. Also, Grimsby still has the largest fish market in the UK, although most of what is sold is now transported to Grimsby by road from other ports or imported in container ships. New industries such as light engineering, chemicals and plastics have become important employers. Grimsby, like many other towns, relies heavily on retailing as a source of employment, together with tourism in the nearby resort of Cleethorpes.

Sources: news reports and industry information, 2010

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1. The price elasticity of demand for labour measures the responsiveness of

A the supply of labour to a change in the demand for labour. ⬭

B the wage rate to a change in the demand for labour. ⬭

C the demand for labour to a change in the supply of labour. ⬭

D demand for labour to a change in the wage rate. ⬭

[1 mark]

2. Assess the view that wide wage differentials are good for the economy and that governments should therefore play no part in deciding wage rates.

[25 marks]

3. '…any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation' (**The Global Context Extract C**, lines 21–23).

Using the data and your economic knowledge, evaluate whether governments, such as those of the UK or China, should intervene in labour markets to increase trade union membership.

[25 marks]

4. 'Although the wage differential has increased between top executives and other employees, the government cannot tell people what they should be paid. However, it should act where there has been market failure, because labour markets are not perfect.'

Explain **three** reasons why labour markets may be imperfectly competitive.

[15 marks]

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5. It has been suggested that the NMW should be increased so that it is the same as the Living Wage.

Using **The National Minimum Wage After 15 Years**, explain the possible effects on individuals and the economy if the government were to adopt this suggestion.

[15 marks]

6. Explain what is meant by 'monopsonistic demand for labour' (**The Global Context Extract B**, lines 13-14) **and** analyse how a trade union can influence wages **and** employment levels in an imperfectly competitive labour market.

[9 marks]

7. Using **The Global Context Extract A**, calculate to one decimal place the percentage decrease in the number of employees who were union members in 2010 compared with 1995.

[2 marks]

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8. THE GLOBAL CONTEXT

Extract C: *Walmart* and China

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company *Walmart*, the world's largest retailer and owners of *Asda* in the UK, has been known to stop operating in some countries rather than have to recognise unions.

With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as Walmart, *McDonald*s and *FedEx*, have adopted an anti-union stance in the countries in which they operate.

In China, however, *Walmart* has signed 'collective bargaining' agreements with the *All-China Federation of Trade Unions* (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on *Walmart*'s part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. *Walmart* gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if *Walmart*'s management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business.

ACFTU discourages strikes at a time when working conditions in China have come in for international criticism. ACFTU has also been accused of failing to represent its members properly because the Chinese government prefers to promote business investment and business growth at the expense of workers' rights. However, there is a view that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation. For this reason, it is argued, the UK government should encourage businesses, wherever they operate in the world, to engage fully with trade unions.

Source: news reports, 2011

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9.

THE GLOBAL CONTEXT

Extract B: Workers united?

In 1776, Adam Smith argued that business people often 'combined' (today we would say 'colluded') in order to fix prices and wages, while 'combinations' of workers were illegal. In his opinion there was an imbalance between the actions of employers and the rights of employees. In 1948, all members of the United Nations signed up to the Universal Declaration of Human Rights. Article 23 states: "Everyone has the right to form and to join trade unions for the protection of their interests." The Declaration also states that union membership cannot be made compulsory.

In the UK and in other modern democracies, most people would probably agree with the Australian Bureau of Statistics that a trade union is 'an organisation consisting predominantly of employees, the principal activities of which include the negotiation of rates of pay and conditions of employment for its members'. To an economist, a trade union replaces 'individual bargaining' with 'collective bargaining', which may enable workers to create a monopolistic supply of labour to counteract the monopsonistic demand for labour from powerful employers.

A prominent British trade union leader claimed recently that union membership was holding steady despite major economic difficulties, and advised workers worried about further shocks to the economy to join a union. He claimed that union members tended to be better paid than workers who are not part of a trade union but who do the same job. Union members earn on average nearly 17%, or £2 an hour, more than other workers.

Source: news reports, 2011

10.

Explain the distinction between 'monopsony power' and 'oligopoly' (**The European Union Context Extract E**, line 5) **and** analyse how the market power of supermarkets can affect the profitability of dairy farms.

[9 marks]

11.

THE GLOBAL CONTEXT

Extract A: Trade union membership and density, UK, selected years 1995-2010

	1995	2000	2002	2004	2006	2008	2010
Membership (number of employees, millions)	7.1	7.1	7.0	7.1	7.0	6.9	6.5
Density (total UK trade union membership as a % of all UK employees)	32.4	29.8	28.8	28.8	28.3	27.4	26.6

Source: Official statistics, 2011

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12. The UK government is considering building a high-speed train line (known as HS2) linking London with cities in the north. It is claimed that HS2 will enable significant reductions in journey times for passengers and goods.

Explain the likely short-run and long-run effects of investment in infrastructure projects such as HS2 on both labour **and** product markets in the UK.

[15 marks]

13. **THE EUROPEAN UNION CONTEXT**

Extract E: British milk from British cows

Milk is the single largest part of the UK agricultural sector by value of output. Almost all the milk in the UK is purchased by just six major processors who then sell on to a market dominated by five or six large supermarket chains. UK dairy farmers complain that while they have to act competitively as price takers, there is a combination of some degree of monopsony power and oligopoly standing between the farms and the public. They claim that dairy processors have too much power when they buy milk from the farms and, in turn, the market for the processors' output is dominated by the buyers working for large, powerful supermarkets, which then sell to the public as oligopolists.

The supermarkets argue that British producers are in a weak position because alternative sources of cheap milk are available for import. The farmers claim that this argument is unsustainable because, if they were forced into bankruptcy, consumers would have no alternative but to buy imported milk which would no longer be offered at low prices.

In 2013, there were concerns about complicated supply chains across Europe resulting in a lack of traceability in meat products, leading to problems such as supermarket beef burgers containing horse meat. If more dairy farms go out of business, similar problems might occur with milk.

Sources: news reports and government information, 2013

14. 'Nurses, who benefit society, earn comparatively little, while some bankers, whose work may cause harm, can earn millions. This is not fair.'

How does economic theory explain such differentials in pay?

[15 marks]

15. 'Government should be concerned about incentives and disincentives to work.
They should not be concerned with fairness in the treatment of various income groups.'

Assess the case for and against governments intervening in labour markets to achieve a fairer distribution of income.

[25 marks]

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16. A firm hires 20 workers at £10 per hour but in order to recruit another worker has to pay £11 per hour. All workers must now be paid the new wage rate. What is the marginal cost of the 21st worker?

A £10 ⬭

B £11 ⬭

C £21 ⬭

D £31 ⬭

[1 mark]

17. The authors of a report published by the Institute of Economic Affairs have recommended that the NMW for apprentices and under 18 year olds should be abolished and that each region of the UK should have its own minimum wage.

Taking into account the information in **The National Minimum Wage After 15 Years Extract E** and the original evidence, do you support these recommendations? Justify your answer.

[25 marks]

18. To what extent, if at all, do the data suggest that the level at which the NMW is set in the UK is damaging to the international competitiveness of the UK economy? You must use the data in **The National Minimum Wage After 15 Years Extract C** to support your answer.

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19.

The National Minimum Wage after 15 years

Extract E: The National Minimum Wage: silver bullet or poisoned chalice?

Since its introduction in 1999, the NMW has increased by 75%, whilst average earnings have risen by 61% and the Retail Price Index by 53%. A new report, published by the Institute of Economic Affairs, argues that the NMW should be abolished for apprentices and under 18-year-olds in the UK to tackle persistently high youth unemployment. The rate for 16 and 17 year olds is due to rise to £3.79 per hour in October 2014 and to £2.73 per hour for apprentices. The authors of the report also believe that setting a single NMW is likely to have adverse effects on private sector employment in the regions. In Wales, for example, the NMW is 70% of median hourly earnings in the private sector, compared to just 42% in London. The report recommends that the minimum wage should be regionalised. When determining the minimum wage for each region, differences in productivity and economic conditions should be taken into consideration.

Source: News Reports accessed May 2104

20.

The National Minimum Wage after 15 years

Extract D: Calls for employers to commit to paying the Living Wage as the pay gap widens

The TUC, the Archbishop of Canterbury and Boris Johnson, the Mayor of London, are just a few of those who have called on employers to pay their workers a living wage. The Living Wage is defined as 'the wage that can meet the basic needs to maintain a safe, decent standard of living within the community'. The Living Wage differs from the minimum wage in that the latter is set by law and may fail to provide people with enough income to have a reasonable quality of life. It has been claimed that five million people are paid less than the Living Wage, which is estimated at £8.80 an hour in London and £7.65 elsewhere.

Proponents argue that paying the Living Wage means workers can live with dignity and not just exist. By paying the Living Wage, employers can lift their employees out of poverty, debt, and illness, which will improve family life. Employers benefit because it is easier to recruit and retain staff, productivity increases, and there is a reduction in sickness and absenteeism. Government spending on welfare is also reduced. Everyone is a winner.

Source: News Reports accessed May 2104

21.

The National Minimum Wage after 15 years

Extract B: The National Minimum Wage to rise to £6.50 in October 2014

Will a rise in the National Minimum Wage (NMW) damage the competitiveness of the UK economy? Representatives of businesses in the UK have claimed that the recently announced 3% increase in the National Minimum Wage is 'unwelcome in today's economic climate'. Critics of the increase maintain that 'it is essential that businesses remain competitive and that the above inflation increase in the NMW will add significantly to business costs'. Yet competitiveness is not just about wages, it also, for example, depends on productivity, the exchange rate and innovation.

Source: News Reports accessed May 2104

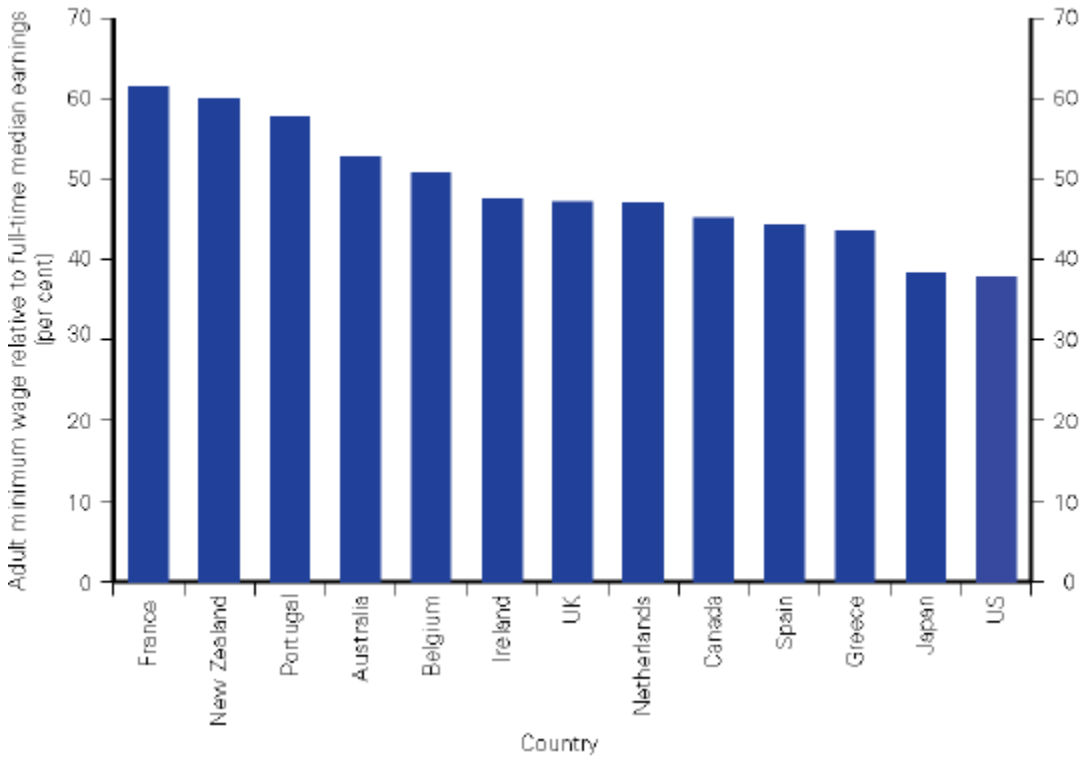
22. **The National Minimum Wage after 15 years**

Extract C: International comparison of adult minimum wages by country, December 2013

Country	**Minimum wage in UK £s, using purchasing power parity exchange rates**
Australia	7.79
France	7.77
Belgium	7.02
Netherlands	6.97
Ireland	6.80
New Zealand	6.35
UK	6.31
Canada	5.89
USA	5.31
Japan	4.80
Spain	3.48
Greece	3.40
Portugal	2.91

Source: Extracted from National Minimum Wage – Low Pay Commission 2014

Adult minimum wages relative to full-time median earnings, by country, 2012



Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Some countries, such as China and India, do not have a single national minimum wage. In China, each province sets its own minimum wage to reflect local conditions. In November the hourly rate in Beijing was equivalent to approximately £1.74, whereas in Hunan it was around £0.93.

International comparisons of productivity, final estimates for 2012

Current price GDP per hour worked

UK = 100

Canada	105
France	132
Germany	131
Italy	111
Japan	89
UK	100
USA	135
G7 average	120

Source: ONS 20 February 2014

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23.

The National Minimum Wage after 15 years

Extract A: The role of the National Minimum Wage

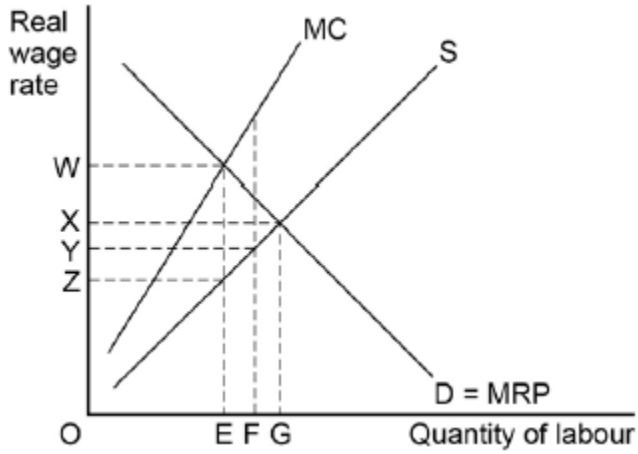
The purpose of the NMW is to provide a wage floor, in order to protect low-paid workers against exploitation, without causing job losses. Many economists have been wary of statutory minimum wages: unless they raise the price of labour at the bottom of the wage distribution above what it would otherwise be they are pointless; but if they raise it then the fear is that they will curb demand for labour, and curb it to the particular detriment of the least skilled.

However, others have pointed out that labour markets are not perfectly competitive. There are costs and risks for workers who want to change jobs, and some employers enjoy a degree of monopsony power in local labour markets. As a result workers may be paid at levels below the market-clearing rate. The implication is that a statutory wage floor may raise the pay of the lowest earners without adverse employment effects. The challenge is to set the level as high as possible short of causing people to lose jobs.

Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

24.

The diagram below illustrates a monopsony labour market following the introduction of a trade union.



The outcome in terms of wages and employment following the introduction of the trade union is most likely to be

A a reduction in wages from W to Y and an increase in employment from E to F. ⬭

B an increase in wages from Z to Y and an increase in employment from E to F. ⬭

C a reduction in wages from W to X and an increase in employment from E to G. ⬭

D an increase in wages from X to W and a reduction in employment from G to E. ⬭

[1 mark]

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25. Which one of the following is the most likely microeconomic consequence of a fall in tax on income?

A A decrease in demand for labour ⬭

B An increase in the demand for exports ⬭

C An increase in supply of labour ⬭

D A decrease in demand for imports ⬭

[1 mark]

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1. In a labour market dominated by a monopsonist, wages and employment are usually lower than in a competitive labour market. This is because a monopsonist

A employs workers up to the point where the marginal revenue product of labour is equal to the wage rate. ⬭

B is a monopoly supplier of labour. ⬭

C equates the marginal revenue product of labour with its marginal cost not the wage rate. ⬭

D restricts output to raise the price of the product sold. ⬭

[1 mark]

2. Using the data in **Extract D (Figure 1)**, calculate the mean female labour force participation rate for the five countries listed. Give your answer to **one** decimal place.

[2 marks]

3. **Trade Unions Extract C** (lines 21−22) states that '….any negative economic effects of trade unions are outweighed by the positive effects of trade union activities…'.

Using the data in the extracts and your knowledge of economics, evaluate the view that trade unions protect the interests of workers and consequently improve the economic welfare of the society in which they operate.

[25 marks]

4. **Trade Unions Extract B** (line 13) states that unions 'counteract the monopsonistic demand for labour from powerful employers'.

With the help of a diagram, explain how the monopsonistic demand for labour from powerful employers is likely to affect wages and employment in a labour market where there are no trade unions.

[9 marks]

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5.

Trade Unions

Extract C: Walmart and China

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company Walmart, the world's largest retailer and owners of Asda in the UK, has been known to stop operating in some countries rather than have to recognise unions.

With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as Walmart, McDonald's and FedEx, have adopted an anti-union stance in the countries in which they operate.

In China, however, Walmart has signed 'collective bargaining' agreements with the All-China Federation of Trade Unions (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on Walmart's part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. Walmart gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if Walmart's management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business.

Some economists believe that trade unions, by threatening industrial action, can force up wages and make it difficult for management to adopt changes that improve productivity. This, they believe, reduces firms' competitiveness and, in the long run, leads to job losses. However, others argue that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities in counteracting the monopsonistic power of large employers, and in preventing discrimination and exploitation.

Source: news reports, 2011

6.

Explain how the data in **Trade Unions Extract A** show the declining importance of trade unions in the UK labour market.

[4 marks]

7.

Trade Unions

Extract A: Trade union membership and density, UK, selected years 1995–2012

	1995	2000	2003	2006	2009	2012
Membership (number of employees, millions)	7.1	7.1	7.1	7.0	6.7	6.5
Density (total UK trade union membership as a % of all UK employees)	32.4	29.8	29.3	28.3	27.4	26.0

Source: contains public sector information licensed under the Open Government Licence v2.0

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8. Trade Unions

Extract B: Workers united?

In 1776, Adam Smith argued that business people often 'combined' (today we would say 'colluded') in order to fix prices and wages, while 'combinations' of workers were illegal. In his opinion there was an imbalance between the actions of employers and the rights of employees. In 1948, all members of the United Nations signed up to the Universal Declaration of Human Rights. Article 23 states: “Everyone has the right to form and to join trade unions for the protection of their interests.” The Declaration also states that union membership cannot be made compulsory.

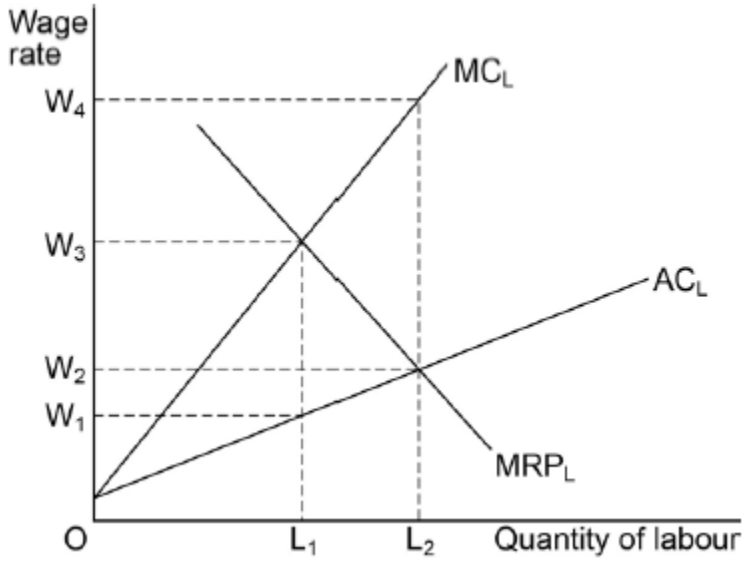
In the UK and in other modern democracies, most people would probably agree with the Australian Bureau of Statistics that a trade union is 'an organisation consisting predominantly of employees, the principal activities of which include the negotiation of rates of pay and conditions of employment for its members'. To an economist, a trade union replaces 'individual bargaining' with 'collective bargaining', which may enable workers to create a monopolistic supply of labour to counteract the monopsonistic demand for labour from powerful employers.

A prominent British trade union leader claimed recently that union membership was holding steady despite major economic difficulties, and advised workers worried about further shocks to the economy to join a union. He claimed that union members tended to be better paid than workers who are not part of a trade union but who do the same job. Union members earn on average nearly 17%, or £2 an hour, more than other workers.

Source: news reports, 2011

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9. The diagram below shows the Marginal Revenue Product of Labour (MRP_L), Marginal Cost of Labour (MC_L) and Average Cost of Labour (AC_L) curves in a market where there is a single employer but labour is supplied competitively.



The employer's profit-maximising wage rate and level of employment is a

A wage of W_1 and employment of L_1 ⬭

B wage of W_2 and employment of L_2 ⬭

C wage of W_3 and employment of L_1 ⬭

D wage of W_4 and employment of L_2 ⬭

[1 mark]

10. Assuming a perfectly competitive labour market, a firm's demand curve for labour would be derived from its marginal

A cost curve. ⬭

B revenue product curve. ⬭

C utility curve. ⬭

D revenue curve. ⬭

[1 mark]

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11. ‘The living wage is based on the amount an individual needs to earn to cover the basic costs of living and lead a “decent life”.’ (**Extract F**, lines 6 – 7).

Using the data and your knowledge of economics, assess whether the UK government should legislate to make the national minimum wage a living wage, or whether there are better ways of improving the earning power of the low paid.

[25 marks]

12. **Inequality Extract E** (lines 6−7) states that ‘growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all’.

Using the data in the extracts and your economic knowledge, assess the view that inequality is ‘good for us all.’

[25 marks]

13. Explain the difference between ‘equality’ and ‘equity’ (**Extract E**, line 3), and, with the help of a diagram, analyse why, left to market forces, some workers will earn very low wages.

[9 marks]

14. **Inequality**

Extract E: In favour of inequality

The way in which society's resources are distributed has long been of major concern to economists, directly affecting as it does the level of social welfare. Changes in the size and distribution of national output raise important questions of efficiency and also involve basic issues of equality. However, what is equitable is a matter of considerable debate amongst economists of different political persuasions.

It has been argued by the supporters of free-market capitalism that growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all. Free market economists would argue that justice automatically arises from the interaction of demand and supply and the existence of competitive markets. In such a scenario, each factor receives what it is worth in terms of the value of its marginal revenue product. Disparities in income and wealth are justified by such factors as greater levels of innate or acquired skills which enable some factors to be more productive than others and earn a greater amount. Differences in the distribution of income and wealth are therefore viewed as inevitable and also desirable in that they provide the necessary incentives for individuals to study, train, supply their factor services and set up new businesses. These differences help the smooth operation of the price system and lead to an efficient resource allocation.

Moreover, an unequal distribution of income is seen as necessary to ensure economic efficiency and a faster growth rate – by making the rich richer, the size of the national cake, that is real GDP, will grow, and the benefits will trickle down to the less well off.

Source: News reports, November 2013

15. Using **Extract D**, **Graph (i)**, calculate the Spanish minimum wage as a percentage of that of the Netherlands.

[2 marks]

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16. ‘75% of British workers had no idea of the importance of the EU in creating and guaranteeing many key rights at work’ (**Extract F**, lines 5 – 7).

Evaluate, using the data and your knowledge of economics, whether governments should attempt to influence aspects of the labour market such as wage levels, wage differentials and working conditions, or whether such matters should be left to market forces.

[25 marks]

17. Using a diagram, analyse how, according to economic theory, the wage rate is linked to a worker’s marginal revenue product.

[9 marks]

18. Calculate, to the nearest whole number, the ratio of Chief Executive Officer (CEO) pay to the pay of a worker on the minimum wage, using the data in **Extract D**, **Figure 1**.

[2 marks]

19. The marginal revenue product of labour is the

A addition to total revenue when the firm produces and sells an extra unit of output. ⬭

B amount produced per worker per time period. ⬭

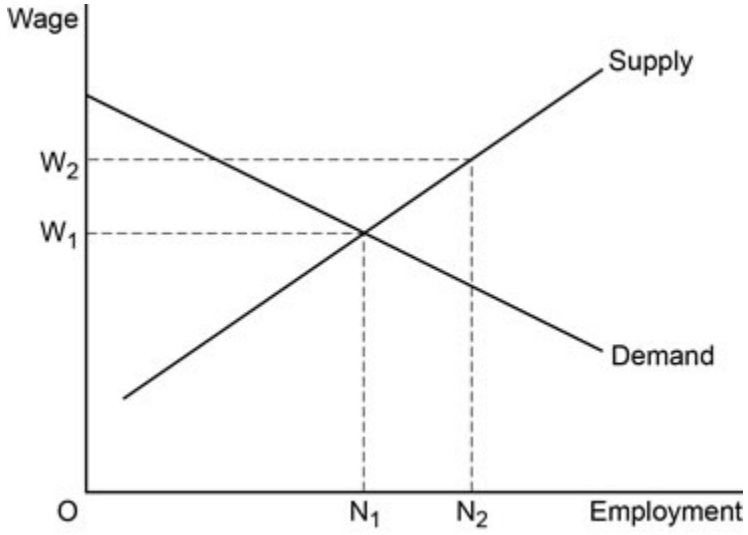
C change in total output that is produced when one extra worker is employed. ⬭

D revenue gained by selling the extra output produced by employing one more worker. ⬭

[1 mark]

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20. The diagram below shows the market for bricklayers.



The original equilibrium wage is W_1 and the number of bricklayers employed is N_1. Which one of the following events is most likely to increase the wage paid to bricklayers to W_2 and increase employment to N_2?

A A cut in bank rate leading to a fall in mortgage interest rates ⬭

B A fall in the number of young people training as apprentice bricklayers ⬭

C An improvement in working conditions in the construction industry ⬭

D An increase in the wages paid to electricians in the construction industry ⬭

[1 mark]

21. Attempts by governments to equalise incomes are well-intentioned but counter-productive. They destroy incentives for people to lift themselves out of poverty.

To what extent can the problem of poverty in the UK be solved through the operation of market forces? Justify your answer.

[25 marks]

22. Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

Explain how government policies can reduce the natural rate of unemployment.

[15 marks]

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23. **Extract F** (lines 18–19) notes that 'The UK Government recognises the need to raise aspirations and attainment for girls'.

Use the extracts and your knowledge of economics to evaluate the policies that government might use to reduce the gender pay gap.

[25 marks]

24. **Extract E** (lines 22–23) states that 'The tendency for women to participate in low-productivity sectors is now a bigger factor in their low pay than discrimination'.

With the help of a diagram, explain how the difference between the marginal revenue product of male and female workers might account for the lower average earnings of women.

[9 marks]

25. Explain how the data in **Extract D (Figure 2)** show that the degree of inequality between the pay of male and female workers is falling.

[4 marks]

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