OCR A-LEVEL ECONOMICS

ECONOMICS



EXAM QUESTION PACK

UNIT F583 OLD SPECIFICATION PAPERS

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OCR
Oxford Cambridge and RSA

Thursday 23 June 2016 – Afternoon

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer Section A and **one** question from Section B.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to Section B.
- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Broadcasting sport – the sky is the limit

In recent years in the UK the two leisure activities of watching television and watching live spectator sports have become very closely linked. Watching sport on TV, such as football, cricket and athletics has become a very popular leisure activity. As a result broadcasters increasingly compete for the right to broadcast a variety of sports across a range of media.

In 2012 Sky TV signed a four-year deal with The England and Wales Cricket Board (ECB) giving exclusive rights to the TV broadcasting of all live cricket. The ECB also announced a new deal with Channel 5 for highlights of England cricket games, while the BBC has a six-year deal to broadcast live cricket matches on the radio.

UEFA, the governing body of European football, controls the Champions League football matches and sells the broadcasting rights to broadcasters. Similarly, in the English league the Premier League owns the right to sell their matches to broadcasters.

Champions League: BT Sport wins £897 million football rights deal

In November 2013 UEFA sold the broadcasting rights to 350 Champions League and Europa League football matches to BT Sport for £897 million. This was a three-year agreement starting in 2015 and was the first time a single UK broadcaster had won the exclusive rights to broadcast live European football matches. The total amount paid for the broadcasting rights is essentially a fixed cost of production when broadcasting football matches. This agreement was worth more than double the previous contract which had allowed Sky TV and ITV to share the broadcasting rights. ITV had been the free-to-air broadcaster of the Champions League since it launched in 1992, but an ITV statement said that they were not prepared 'to pay over the odds' for the broadcasting rights.

Sky TV already has a large share of the broadcasting rights to show Premier League games. In 2015 it won a major power battle with BT Sport to gain the right to broadcast most of the Premier League games. Sky TV paid just over £4 billion for the right to show 126 games each season over a three-year period. In contrast, BT, which launched its UK sports channels in August 2013, paid £960 million for the right to show 42 matches each season.

Winners and losers

The large amounts of money paid by the TV companies have been reflected in the wages of footballers in the top leagues. A survey of wages paid to professional footballers by the Professional Footballers' Association indicated that players in the Premier League earn, on average, £676,000 per year. In the lower leagues annual wages were significantly lower with an average of £195,750 in the Championship, £67,850 in League One and £49,600 in League Two.

Following a complaint from Virgin Media, Ofcom, the broadcasting watchdog, has opened an investigation into how the Premier League sells the live TV broadcasting rights for its football matches. Virgin Media want more matches available for live broadcast and claim that the 'collective' selling of matches is in breach of competition law. Virgin Media also argues that the proportion of the matches made available for live TV broadcast is lower than other major European leagues.

Virgin Media argues that these factors contribute to higher prices for consumers of TV packages meaning that fans in the UK pay the highest prices in Europe to watch the least amount of football on TV.

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SECTION A

Answer **all** parts of the question in this section.

1 **(a)** **(i)** Calculate BT's cost per European match as a result of the three-year agreement with UEFA.

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..... **[2]**

(ii) Explain the difference between the average total cost and the marginal cost of broadcasting major football matches.

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..... **[3]**

(b) Apart from the cost of buying TV rights, state and explain **one** barrier to entry to broadcasting sport on television.

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..... **[3]**

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(c) How does economic rent help to explain the wages received by top Premier League footballers?

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..... **[4]**

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(d) Comment on the market failure associated with selling live Premier League TV broadcasting rights to Sky and BT.

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(e) Discuss the extent to which the market for the broadcasting of sport is a monopoly. **[8]**

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SECTION B

Answer **one** question from this section.

2 **(a)** Explain, using a diagram, how the profit earned by a firm is influenced by the relationship between its marginal cost and its marginal revenue. **[15]**

(b) Discuss, using examples, whether profit maximisation is likely to be the main objective of firms. **[20]**

3 **(a)** Explain, using examples, why elasticity of demand for labour varies between occupations. **[15]**

(b) 'In October 2014, real wages had fallen for seven consecutive years and were 6.9% below their 2007 level.'

Discuss the extent to which a reduction in bargaining power was the main determinant of the fall in real wages in the UK between 2007 and 2014. **[20]**

4 **(a)** Explain, using examples, the impact of labour market failure on the labour market. **[15]**

(b) Discuss the extent to which different types of government intervention fail to solve the negative impacts of labour market failure. **[20]**

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SECTION B

Question No. .....

Start your answer to part **(a)** here.

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Start your answer to part **(b)** here.

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

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GCE

Economics

Unit **F583:** Economics of Work and Leisure

Advanced GCE

Mark Scheme for June 2016

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Annotations

Annotation	Meaning
 and 	
	Unclear
BOD	Benefit of doubt
TV	Too vague
NAQ	Not answered question
IR	Irrelevant
	Development of point
EE	Effective evaluation
SEEN	Seen
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4

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Question			Answer	Mark	Content	Levels of Response
1	ai		**Calculate BT's cost per European match as a result of the three year deal with UEFA.** £897m / 350 = £2.56m/£2.6m (2 marks) If £ sign and/or million missing (1 mark)	2	£2.56m/£2.6m alone can be awarded (2 marks) Correct method with wrong outcome (1 mark)	
1	aii		**Explain the difference between the average total cost and the marginal cost of broadcasting major football matches.** The marginal cost of broadcasting is only concerned with variable costs (1 mark) As stated in the passage the cost of buying rights is included in fixed costs. Average total cost will include these fixed costs (1 mark) As a result the marginal cost of broadcasting will be significantly lower than the ATC (1)	3	Maximum of 1 mark for basic definition of **either** average total cost **and/or** marginal cost not in the context of broadcasting Definitions of ATC and MC within the context of broadcasting – maximum of 2 marks Accurate definitions of **both** ATC and MC within the context of broadcasting with a clear **and** correct comparison between the two terms is necessary for full marks	
1	b		**Apart from the cost of buying TV rights, state and explain one barrier to entry to broadcasting sport on television.** Candidates to be awarded one mark for stating a relevant barrier to entry – e.g. technical A further two marks for explanation. E.g. Developing expertise and technology for broadcasting sporting events (1)	3	For full marks the BTE must be well developed into how and why the stated barrier prevents entry into the market. Only accept one barrier to entry Do **NOT** give credit for the candidate that uses buying TV rights as a barrier	

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Question			Answer	Mark	Content	Levels of Response
			New entrants to the broadcasting of sports might have to purchase specialist equipment and carry out training in order to ensure a first class final product in terms of coverage of matches. (1 mark) This will require the firm to spend a significant amount of money and time and such costs will act as a barrier to entry.(1 mark) Accept any well explained relevant example of a barrier to entry.			
1	c		**How does economic rent help to explain the wages received by top Premier League footballers?** ER is a payment over and above transfer earnings. (1 mark) Highly skilled footballers can earn a significant amount/proportion of ER given the next best paid occupation. (1 mark) The high level of skill means that the PL footballers will have a very inelastic or even totally inelastic supply curve (1 mark) This will result from the fact that a skilled footballer is very difficult to be substituted by another player and can therefore command a relatively high wage.(1 mark)	**4**	A correct and relevant annotated diagram can receive a maximum of 3 marks with no written explanation. Correctly labelled lines/curves and axes (1 mark) Area of economic rent correctly identified (1 mark) An inelastic/relatively inelastic supply curve (1 mark) If credit has been given for the identification of an inelastic/relatively inelastic supply curve on the diagram then do **NOT** repeat the mark in the narrative Up to 2 marks for a numerical example	

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Question			Answer	Mark	Content	Levels of Response
					Full marks can only be awarded to candidates who either draw a relatively inelastic supply curve OR correctly identifying that top PL footballers have relatively inelastic supply	
1	d		**Comment on the market failure associated with selling live Premier League TV broadcasting rights to Sky and BT.** Sky and BT form a duopoly and the limited competition results in relatively high prices to view live PL football – especially when compared to the BBC. Also the text indicates allocative inefficiency and a lack of consumer welfare due the fact that a limited number of matches are shown compared to other countries. On the other had Sky and increasingly BT have the technology and expertise to provide a high quality product. In the long run, contestability may increase – for example, when broadcasting rights expire and are up for renewal. This may create a more allocatively efficient solution.	5		Up to 2 marks for one sided analysis. (Use green tick) Up to 2 marks for an analysis of the other side of the question (Use L4 button) Plus – one further mark for a judgement/conclusion – if both sides have been analysed (Use EE button).

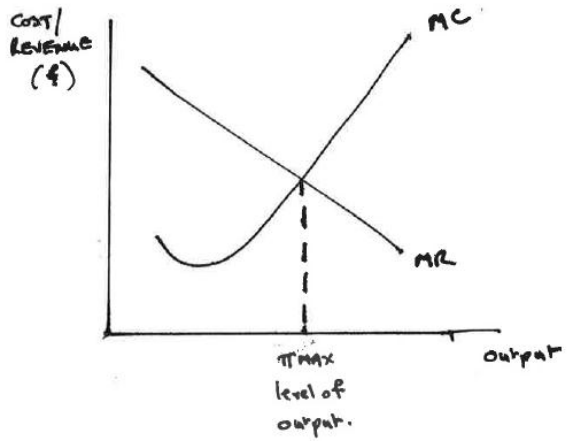
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Question			Answer	Mark	Content	Levels of Response
1	e		**Discuss the extent to which the market for the broadcasting of sport is a monopoly.** On the one hand the financial power of Sky and BT means that two providers would seem to hold well over 25% of the market for televised broadcasting of football and can therefore be classed as a 'real world' monopoly. The existence of very high barriers to entry in the broadcasting of all sports suggests a monopoly. Certain types of sports broadcast support can be controlled by price makers due to the exclusivity. On the other hand a broad definition of sports broadcasting would produce a much more competitive market. If sports such as cricket, snooker, horse racing, athletics, darts are included then the degree of monopoly power is much reduced. Similarly the a broader view of broadcasting to include highlights rather than live coverage, radio broadcasting and on line viewing of sporting events suggest a more competitive model.	**8**		Up to 3 marks – analysis of why the market for the broadcasting of sport may be a monopoly or may not be a monopoly. (Use green tick) Up to 3 marks – for a two sided analysis producing an overall two sided argument or analysis which explains what a positive or negative argument depends upon (Use L4 button) Plus 2 further marks for a clearly evaluated judgement of the extent to which the market for the broadcasting of sport is a monopoly. (Use EE button).

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Question			Answer	Mark	Content	Levels of Response
2	a		**Explain, using a diagram, how the profit earned by a firm is influenced by the relationship between its marginal cost and its marginal revenue** A simple diagram using just a MC curve (upward sloping) and an MR curve (downward sloping) is sufficient to be able to answer the question. Candidates are expected to identify the profit maximising level of output at the level of output where MC =MR. Candidates should then analyse why a level of output below the profit maximising level would produce a situation where for an increase in output the MR will be greater than MC. This means that there will be an addition to the amount of profit. This process will continue until MC = MR. Similarly any output beyond the profit maximising level would create a situation where MC is greater than MR and total profit will fall. Thus this decision to increase output will not happen as it will move the firm away from the profit maximising level.	**15**	No diagram or incorrect diagram. Max mark = 6 marks	**Level 3 (9-15 marks)** 9-10 marks. Basic analysis of one explanation 11-12 marks. Good analysis of one explanation or basic analysis of two. 13-15 marks. Good analysis two or more explanations **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which applies the concept of marginal cost and marginal revenue to a firm 5-6 marks= 1 factor identified and applied 7-8 marks = 2 or more factors identified and applied **Level 1 (1-4 marks)** Knowledge and understanding of what is meant by marginal cost, marginal revenue and profit

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Question			Answer	Mark	Content	Levels of Response
			Diagram  		Axis – Horizontal. Accept quantity Candidates who produce the full set of curves MC, MR, AC and AR can be awarded full marks as long as the analysis is based on the relationship between MC and MR at different levels of output.	
2	b		**Discuss, using examples, whether profit maximisation is likely to be the main objective of firms.** Firms might seek to profit maximise by producing at the level of output where MC=MR. The objective of maximising profit is traditionally seen as a equilibrium objective, in the sense that at the profit maximising level there are no forces for change as different levels of output will produce lower levels of profit. There are other reasons which candidates might put forward as reasons for firms to pursue this objective and candidates can be expected to analyse the following;	**20**	To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum level 2 mark.	**Level 4(a)** 16-17 marks = weak judgement and balanced analysis. 18-20 marks = good judgement and balance discussion **Level 4(b)** 11-12 =basic discussion which is predominantly one-sided 13-15 = balanced, two sided discussion with relevant economic analysis of both sides.

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Question			Answer	Mark	Content	Levels of Response
			• Abnormal profits are a reward for risk taking, otherwise owners/shareholders may not invest in a business. • Abnormal profits are one of the major sources of funds for investment. Firms will use retained profits to invest in more efficient production techniques, training and developing new products and processes. The aim is therefore to secure growth of the firm and remain competitive both domestically and internationally. • Abnormal profits might allow a firm in a highly competitive market to adopt price cutting strategies. Again increasing market share and generating growth. • Abnormal profits might attract the most efficient factors of production e.g. labour as the rewards to the factors are likely to be higher. • Abnormal profits will allow workers to have higher wages thus increasing their motivation and MRP. This might be especially true in profit sharing and bonus schemes. On the other hand candidates could point out that profit maximisation is highly theoretical and go on to analyse the reasons why it is not practical in the real world. This could include; • Inability to calculate MC • Inability to calculate MR • Difficult to apply to multiproduct firms • Lack of perfect information.			**Level 4 (11-20 marks)** Discussion of the difficulties in choosing to operate at the profit maximising level and/or alternative objectives. **Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.** **Level 3 (5-10 marks)** Analysis of how and why a firm would choose to produce at a profit maximising level of output or an alternative objective. **Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.**

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Question			Answer	Mark	Content	Levels of Response
			Candidates might also analyse examples of alternative objectives such as; • Sales max • Sales rev max • Satisficing • Survival • Utility maximisation Accept analysis of any relevant objective.			**Level 2 (3-4 marks)** Application of knowledge and understanding of objective(s) which a firm might pursue. **Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.** **Level 1 (1-2 marks)** Knowledge of profit maximisation and/or alternative objectives. **Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.**

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Question			Answer	Mark	Content	Levels of Response
3	a		**Explain, using examples, why elasticity of demand for labour varies between occupations.** Candidates are expected to state and explain the factors that determine the elasticity of demand for labour and use them to explain why different occupations will have different elasticities of demand. Elasticity of demand is the responsiveness of the demand for labour in reaction to a change in the wage rate. Factors influencing elasticity of demand for labour include; • The price elasticity of demand for the product – e.g. if demand for product is inelastic then demand for labour may be inelastic as wage increases can be easily passed on to the consumer. • The proportion of wage costs in total costs – if labour costs are a very high percentage then changes in wage costs will be significant to the firm and demand for labour will be elastic. • Ease with which labour can be substituted- if labour can be easily replaced then elastic. • Elasticity of supply of complementary factors – if wages fall and it is easy to obtain more of the factors that are used with labour then demand for labour will be elastic. • Time period – more elastic in long run.	**15**	No examples – lowest mark in appropriate level. Max 9 Do not reward answers that consider the elasticity of supply of labour.	**Level 3 (9-15 marks)** Analysis which focuses on why the elasticity of demand for labour varies between occupations. 13-15 Good analysis of two reasons for variation. With examples 11-12 Good analysis of one reason or basic analysis of two reasons With examples 9-10 basic analysis of one reason. **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes assertions about the factors affecting elasticity of demand for labour without going on to provide detailed analysis. 7-8 marks 2 or more reasons identified and applied. With examples 5-6 marks 1 reason identified and applied

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Question			Answer	Mark	Content	Levels of Response
			For example, ''One factor which determines the elasticity of demand for labour is the price elasticity of demand for the product which labour produces (L1). If the demand for the product produced is inelastic then the demand for labour will be inelastic (L2). This is because any increase in wages will not result in a significant fall in demand for labour as the firm can increase the price of the product without suffering any significant fall in demand. In effect the increase in wages is passed on to the consumer. Workers in such occupations are therefore able to receive relatively high wages (L3). An example of this could be the demand for legal services. As the demand for the service is inelastic then barristers can earn relatively high wages which are passed onto the consumer in the form of high legal fees.			**Level 1 (1-4 marks)** Knowledge and understanding of the elasticity of demand for labour
3	b		**In October 2014 real wages had fallen for seven consecutive years and were 6.9% below their 2007 level.** **Discuss the extent to which a reduction in bargaining power was the main determinant of the fall in real wages in the U.K. between 2007 and 2014.** In recent years the bargaining power of trade unions is thought to have declined and hence TU activity in bargaining has been unable to prevent the fall in real wages.	**20**	To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum level 2 mark.	**Level 4(a)** 16-17 marks = weak judgement and balanced analysis. 18-20 marks = good judgement and balance discussion **Level 4(b)** 11-12 =basic discussion which is predominantly one-sided 13-15 = balanced, two sided discussion with relevant economic analysis of both sides.

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Question			Answer	Mark	Content	Levels of Response
			Candidates might use the example of a strong bargaining unit to push wages up at a higher rate than inflation. This could then be contrasted with a weak bargaining unit being unable to keep wages increasing in line with inflation. On the other hand a variety of reasons might be put forward for the fall in real wages. • Large increases in unemployment associated with the recession • A lack of aggregate demand as consumers lacked confidence and were more willing to pay off debt than consume • A growth in flexible forms of employment such as temporary work, part time work and zero contract deals all of which tend to be less able to increase their wages • A public sector wage freeze – candidates might point out the monopsony nature of many public sector employers • An increase in labour supply, such as an increase in immigration			**Level 4 (11-20marks)** Discussion of the factors affecting changes in real wages in the UK between 2007 and 2014. **Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.** **Level 3 (5-10 marks)** Analysis of how a reduction in bargaining power can reduce and/or factors affecting real wages **Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.**

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Question			Answer	Mark	Content	Levels of Response
						Level 2 (3-4 marks) Application of knowledge and understanding of bargaining power and/or factors affecting real wages **Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.** **Level 1 (1-2 marks)** Knowledge of bargaining and/or real wages. **Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.**

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Question			Answer	Mark	Content	Levels of Response
4	a		**Explain, using examples, the impact of labour market failure on the labour market.** Candidates may choose from a number of examples of market failure such as: • Monopsony • Union power • Imperfect information • Skill shortages • Unemployment • Economic inactivity • Immobility – geographic and occupational • Discrimination • Supply side constraints – e.g. labour market inflexibilities/legislation • segmented labour markets Candidates will analyse the impact of their chosen market failure/s on both the wage rate and the quantity of labour employed. A starting point would be the equilibrium wage rate and quantity of labour demanded in a market where the supply and demand for labour operate freely and the labour market clears. Due to the chosen labour market failure wages may be pushed below the equilibrium rate (monopsony) or above the equilibrium rate (Trade union activity). Analysis should be supported by examples. Diagrams may be included and should be credited where relevant.	**15**	No examples – Max Level 1 (Knowledge only)	**Level 3 (9-15 marks)** 9-10 Basic analysis of one impact on the labour market. 11-12 Good analysis of one impact or basic analysis of two. 13-15 Good analysis two or more impacts. **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes assertions about the impact of labour market failure upon wage rates and the quantity of labour employed 5-6 marks 1 impact identified and applied 7-8 marks 2 or more impacts identified and applied **Level 1 (1-4 marks)** Knowledge and understanding of labour market failure and/or its causes.

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Question			Answer	Mark	Content	Levels of Response
			Similarly the impact on the quantity of labour demanded should be analysed in terms of movement away from the equilibrium using examples. Diagrams may be included and should be credited where relevant.			
4	b		**Discuss the extent to which different types of government intervention fail to solve the negative impacts of labour market failure.** Government intervention can take many forms and will depend upon the cause of market failure. Candidates might analyse interventions such as, • legislation (including national minimum wage) • information provision • reform of tax and benefit systems • subsidies e.g. for education and training Analysis should be two-sided providing a discussion of the problems associated with operating a particular intervention contrasted with the advantages. E.g. Legislation used to solve the problem of regional unemployment Candidates might focus on the problems associated with regional policies such as; • Cost of policies – opportunity cost.	**20**	To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum level 2 mark.	**Level 4(a)** 16-17 marks = weak judgement and balanced analysis. 18-20 marks = good judgement and balance discussion **Level 4(b)** 11-12 =basic discussion which is predominantly one-sided 13-15 = balanced, two sided discussion with relevant economic analysis of both sides. **Level 4 (11-20 marks)** Discussion of the extent to which government intervention may not solve the negative impacts of market failure **Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex**

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Question	Answer	Mark	Content	Levels of Response
	• Regional policy usually associated with some form of subsidy. Candidates could analyse this in terms of creating productive inefficiency. • Most regional policies rely on increasing mobility of either labour or capital or both. The incentives might not be great enough to encourage sufficient changes in mobility. • Problem of picking regions to focus upon. • EU might see this as a type of protectionist measure • Increased labour mobility might be hampered by lack of affordable housing. On the other hand, such policies can be seen as positive. • Increased capital mobility will allow unemployed labour resources to be utilised more efficiently. • Labour mobility will solve the problem of labour shortages in regions of high growth. • Overall a more efficient allocation of scarce resources. • Potential local multiplier impacts acting to regenerate growth in low growth areas. • Lower costs of production e.g. rents and wages in low growth areas could increase productive efficiency and competitiveness.			**subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.** **Level 3 (5-10 marks)** Analysis of why government intervention may not solve the negative impacts of market failure **Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.** **Level 2 (3-4 marks)** Application of knowledge and understanding of using government intervention to cure market failure **Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling,**

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Question			Answer	Mark	Content	Levels of Response
			.			**punctuation and grammar, some of which may be noticeable and intrusive.** **Level 1 (1-2 marks)** Knowledge of government intervention to cure market failure **Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.**

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Education and Learning
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Email: general.qualifications@ocr.org.uk

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OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553

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Oxford Cambridge and RSA

Friday 19 June 2015 – Morning

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer Section A and **one** question from Section B.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to Section B.
- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Minimum wages in the UK and the EU

15 years of the National Minimum Wage in the UK

The minimum wage was introduced in the UK in April 1999. At that time, the main rate for workers aged 22 and above was set at £3.60 per hour. A lower rate for workers aged 18 to 21 was also introduced at £3.00 per hour. In 2004 a third, even lower rate, was introduced for 16 to 17 year olds. Every year since it was introduced the main rate has increased and more than ten years after its introduction it reached £6.50 in October 2014. During the same period average earnings and inflation (as measured by the Consumer Price Index) also increased (see Fig. 1).

	UK National Minimum Wage – main rate (£ per hour)	Index of average UK earnings (including bonuses)	UK Consumer Price Index
April 1999	£3.60	100	100
October 2014	£6.50	156 (Oct 2011)	144

Fig. 1 – UK National Minimum Wage, average earnings and inflation

Minimum wages in the European Union (EU)

By January 2014 the majority of the EU's 28 member countries had either passed legislation setting a national minimum wage or a national agreement on minimum wages which varied between different industrial sectors. Monthly minimum wages varied widely, from 174 euros in Bulgaria to 1921 euros in Luxembourg – over 10 times higher.

In 2014 the minimum wage level in the EU was between 30% and 50% of average EU gross monthly earnings. At the higher end of this range France and Belgium were among the countries with a minimum wage which was more than 45% of EU average earnings; while at the lower end, the Czech Republic and Romania had minimum wages which were less than 35% of EU average earnings.

Sweden, Norway and Denmark do not have a national minimum wage. Instead they have a collective agreement between unions and employers.

In February 2012 the Greek government agreed deep cuts to the country's minimum wage; for example a 22% cut in the rate for those aged 25 and above. For those under 25, the cut was even more severe with a 32% reduction. In addition, a public sector wage freeze was imposed.

Time for the EU to set minimum wages?

In recent years there has been a growing belief that wages will be set at an EU level. As a result the EU trade union movement has seen the need to develop a strategy to protect the level of wages of workers in different EU countries.

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In 2009 8.4% of the people employed in the EU were close to or below the poverty threshold. Fourteen per cent of the working people in the EU earned less than 60% of the average wage in the country in which they worked. Almost one fifth of those who earned less than 60% of the average wage in the country in which they worked were at risk of poverty.

One suggestion, therefore, has been to set minimum wages throughout the EU in relative rather than absolute terms. This would involve each member country setting its own national minimum wage in relation to the country's national average wage. A minimum wage level of at least 60% of the national average wage in the member country has been proposed by pressure groups. *30*

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SECTION A

Answer **all** parts of the question in this section.

1 **(a)** **(i)** Using Fig. 1, calculate the percentage change in the main rate of the UK National Minimum Wage between April 1999 and October 2014.

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..... **[2]**

(ii) Explain what has happened to the real value of the UK National Minimum Wage over the period April 1999 to October 2014.

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..... **[2]**

(b) Using marginal revenue product theory, explain why countries such as Greece and the UK have different minimum wage rates for different age groups.

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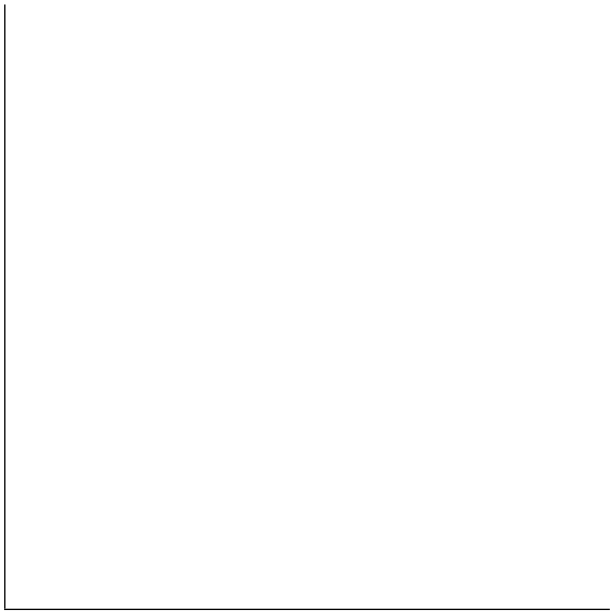
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..... **[3]**

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(c) Using a diagram, analyse the impact of trade unions under a system of collective bargaining.



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..... **[5]**

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(d) Comment on the impact of a public sector wage freeze on the labour market in a country.

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..... **[5]**

(e) Discuss the case for each EU country setting its minimum wage at 60% of its average national wage. **[8]**

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SECTION B

Answer **one** question from this section.

2 **(a)** Analyse, using examples, why both unemployment and economic inactivity are causes of labour market failure. **[15]**

(b) Discuss the effectiveness of government intervention in reducing labour market failure. **[20]**

3 **(a)** Analyse, using examples, how the number of firms competing in an industry may affect the market equilibrium. **[15]**

(b) Using a leisure industry of your choice, discuss the extent to which it is contestable. **[20]**

4 **(a)** Analyse, using a diagram, how the supply of labour in the short run is determined. **[15]**

(b) Discuss the extent to which the quality and quantity of training provided by an employer is the most important factor determining the long run supply of labour to that occupation. **[20]**

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SECTION B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

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OCR
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GCE

Economics

Unit **F583:** Economics of Work and Leisure

Advanced GCE

Mark Scheme for June 2015

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
	Tick
	Cross
	Unclear
BOD	Benefit of doubt
EE	Effective evaluation
IR	Irrelevant
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague
	Development of point

Highlighting is also available to highlight any particular points on the script.

'**SEEN**' to be inserted on <u>every</u> blank page

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Subject-specific Marking Instructions

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (b) of the essays and should be applied consistently between the different essays:

Level 4: Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

Level 3: Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.

Level 2: Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.

Level 1: Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar.

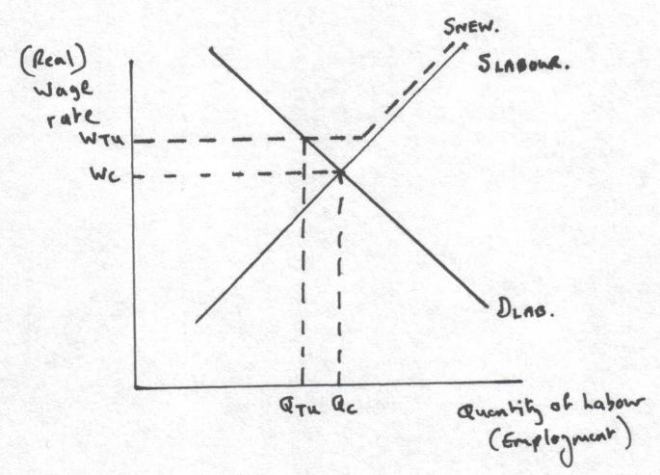
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Question			Answer	Mark	Guidance
1	a	i	**Using Fig. 1, calculate the percentage change in the main rate of the UK National Minimum Wage between April 1999 and October 2014.** Main rate in UK has increased from £3.60 to £6.50. 6.50-3.60 = 2.90 (1) or 6.5/3.6 = 1.805 (1) 2.90/3.60 * 100 = 80.56% (2). Accept 80.55%, 80.6%, 81%, 80% One mark = correct numerator of 2.90	**2**	Up to two marks. Accept figure even without percentage.
		ii	**Explain what has happened to the real value of the UK National Minimum Wage over the period April 1999 and October 2014.** Real value increased (1). Some indication that the minimum wage has increased faster than the CPI (1).	**2**	Up to two marks. OFR applies if candidate uses the incorrect answer from a(i) correctly in a(ii). Example of indication: Min wage increased by 80.56%, and CPI increased by 44%. No credit for reference to what has happened to earnings.

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Question			Answer	Mark	Guidance
	b		**Using marginal revenue product theory, explain why countries such as Greece and the UK have different minimum wages for different age groups.** Candidates may refer to MRP and explain that this is a measure of the value of an extra worker to the firm (1). Or candidates may state older workers (younger workers) have a higher (lower) MRP (1). Lower age groups will receive a lower minimum wage because, in theory, they add less value, in the form of marginal physical product, to the firm due to a lack of skill and experience (1) and, therefore, receive a lower wage (1). Alternatively The lower minimum wage lowers the price of labour to the firm (1) and makes the firm more willing to employ younger age groups (1).	**3**	Up to three marks. Accept same explanation but based on higher age groups. Award one mark for an accurate diagram that shows differences in MRP for different age groups. Analysis of the diagram can gain up to an additional 2 marks.

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Question			Answer	Mark	Guidance
	c		**Using a diagram, analyse the impact of trade unions under a system of collective bargaining.** Candidates can be expected to produce the diagram below showing how the competitive labour market equilibrium at Wc/Qc is affected by the impact of TU activity.  Accept bilateral monopoly diagrams. Three marks for diagram. Axis incorrect = 0 diagram marks. Marks can be awarded for Correct axis (1) and supply and demand correct (1) New supply curve at wage above equilibrium (1) Explanation of impact can gain up to two marks. For explanation that TU would use its control over the	**5**	Up to five marks. Up to three marks for a correctly drawn and labelled diagram. Up to two marks for an analysis of impact. For the Y-axis, accept: Wage, Wage Rate, Real Wage Rate, W, Price of Labour. For the X-axis, accept: Labour (L), Quantity of Labour, Number of Employees, Quantity, QLab, Employment (E) Allow D & S for names of the curves. The new supply curve must be/have a horizontal section.

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Question			Answer	Mark	Guidance
			labour supply to negotiate a wage Wtu above the equilibrium and not supplying below that rate (1). For explanation that at the new equilibrium the increase in the wage has caused a contraction in demand for labour/fall in employment (1).		Do not accept a simple shift to the left of the original supply curve.
	d		**Comment on the impact of a public sector wage freeze on the labour market in a country.** The impact of a public sector wage freeze will be to reduce the real wages of public sector workers (1), assuming that inflation is positive. This will cause a drop in living standards (1) for those workers, possibly increasing the level of income inequality (1) and reducing the level of consumption/aggregate demand in the economy (1). However, this might limit the increase in wage costs for a government (1) and help in reducing the size of the budget deficit (1). Workers might be incentivised to leave the public sector (1) and, therefore, increase the supply of labour, both skilled and unskilled, to the private sector (1). This increase in supply might limit wage growth in the private sector (1) allowing firms to be more internationally competitive (1). This depends on the wage differential between the public and private sector. Arguments depend on the size of the public sector (1), duration of the wage freeze (1).	**5**	Up to five marks. Up to two marks for an analysis of one side of the question. Up to two marks for an analysis of the other side of the question. Plus a further one mark for a judgement/conclusion – if both sides have been analysed. Accept any relevant and appropriate arguments such as economic inactivity, unemployment, migration and greater certainty and job security associated with wage freezes as opposed to wage cuts. On each side, one factor analysed well can gain both marks. The question does **not** specify a country – answer does **not** have to be in context of Greece to gain marks.

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Question			Answer	Mark	Guidance
	e		**Discuss the case for each EU country setting its minimum wage at 60% of its average national wage.** The information in the case study indicates that a minimum wage set at 60% of average earnings would be set at a relatively high level. The average is stated at between 30% and 50% with higher end countries operating at over 45% of average earnings. The impact of each country introducing such a minimum wage would increase the wages paid to those on the minimum wage, increasing their standard of living and increasing AD within the economy. The European trade union movement would see this as a method of reducing inequality and protecting the level of wages. Geographical mobility of labour may increase as NMW levels will be higher in high income countries. However, this increase in the cost of labour might lead to unemployment as low income workers are priced out of a job and EU firms become uncompetitive due to increased labour costs. Wage inflation might be set off by a wage price spiral, especially if wage differentials are maintained by those earning above the national minimum wage. Accept any relevant and appropriate arguments.	**8**	Up to eight marks. Up to three marks for an analysis of one side of the question. Up to three marks for an analysis of the other side of the question. Plus up to a further two marks for a judgement/conclusion – if both sides have been analysed. For three marks – at least one point must be well analysed and another point analysed at a basic level. Reward answers based on mobility of both labour and capital. E.G. workers with relatively low minimum wages moving to countries with high minimum wages. Similarly, firms relocating to countries with lower minimum wages. This mobility can create both positive and negative impacts. Candidates may adopt a single country approach to the question. This is acceptable and can still gain full marks. **NB** Maximum three marks only for answers which focus on a single EU minimum wage, rather than one based on 60% of average earning in each country.

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
2	a		**Analyse, using examples, why both unemployment and economic inactivity are causes of labour market failure.** Candidates can be expected to clearly distinguish between unemployment and economic inactivity. Candidates might also define what is meant by labour market failure. This might then be applied by using examples of both causes. The focus on the analysis part of the answer must be why these causes create labour market failure. For **economic inactivity** market failure might be exhibited in the form of the economy producing below its potential. This is because groups such as discouraged workers or long-term sick and disabled who are capable of doing some work are inactive and, therefore, limiting the size of the labour force. This represents a misallocation of resources – resources are not being used to their full potential under the operation of free market forces. **Unemployment** means that labour markets are not clearing and the economy is below productive potential. The longer people are out of work the more likely they are to be out of touch with skills and may even give up hope of gaining a job. The existence of unemployment arising from e.g. a national minimum wage, Trade Union power, and workers being voluntarily unemployed may result in labour markets not clearing Good analysis will clearly explain why the two causes, unemployment and economic inactivity, lead to market failure and include examples of labour market failure taken from the real world.	**15**	If only one of unemployment or economic inactivity is considered/no examples provided, then max 9 for L3; 5 for L2 and 2 for L1.	**Level 3 (9-15 marks)** Analysis which focuses on why unemployment and/or economic inactivity leads to market failure 13-15 Good analysis two causes of market failure. 11-12 Good analysis of one cause or basic analysis of two 9-10 Basic analysis of one cause. **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes assertions about either unemployment or economic inactivity leads to market failure 7-8 marks - two causes identified and applied 5-6 marks - one cause identified and applied **Level 1 (1-4 marks)** Knowledge and understanding of unemployment and/or economic inactivity and/or market failure

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	b		**Discuss the effectiveness of government intervention in reducing labour market failure.** Government intervention provides a wide range of possible policies which candidates might state and explain. Regional policy seeks to influence the distribution of firms and people by financial assistance for relocation of workers or providing housing to overcome regional differences in housing costs. Alternatively, governments could encourage capital to move to areas of high unemployment through subsidies and a variety of other incentives. The public sector could also locate its own activities in areas of relatively high unemployment rather than in areas where labour is relatively scarce. Either method, increasing labour or capital mobility, is attempting to cure the market caused by geographical immobility. On the occupational mobility side education and training schemes provided or funded by the government aim to raise the qualification and skill level of the population, increasing the level of investment in human capital. This could then reduce skill shortages and increase the productivity of labour. On the other side candidates could go on to question the effectiveness of government intervention pointing out why it might prove to be ineffective. Another approach providing balance would be to consider alternatives to government intervention such as firms providing their own solutions to the different immobilities. Market forces might be expected to encourage firms to move away from areas of labour shortage and towards	**20**	**Level 4(a)** 18-20 marks = good judgement and balanced discussion 16-17 marks = weak judgement and balanced analysis. **Level 4(b)** 13-15 = balanced, two sided discussion with relevant economic analysis of both sides. 11-12 = basic discussion which is predominantly one-sided	**Level 4(a) (16-20 marks)** Discussion which includes a judgement of the extent to which government intervention is the best method of reducing LMF. **Level 4(b) (11-15 marks)** For a balanced discussion of the extent to which government intervention is the best method of reducing LMF. **Level 3 (5-10 marks)** Analysis of how government intervention can be effective in reducing LMF. Or analysis of limitations of government intervention. **Level 2 (3-4 marks)** Application of knowledge and understanding of how government intervention can be used to reduce LMF. **Level 1 (1-2 marks)** Knowledge of government intervention and/or labour market failure. *Quality of Written Communication* is assessed in this question. Please see

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			areas of relatively high unemployment. Similarly, if firms are not able to recruit appropriate skilled labour then they will recruit and train internally. Firms could also focus on the importing of skills via migration as an alternative to the domestic labour market.			page 5 for guidelines.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
3	a		**Analyse, using examples, how the number of firms competing in an industry may affect the market equilibrium.** Candidates should make comparisons between an industry with few competitors and an industry with many competitors. Knowledge and understanding could be demonstrated by introducing market structures with many competitors, such as long term monopolistic competition and few competitors – monopoly and oligopoly. The number of firms can be expected to influence the level of competition and candidates should apply this using examples. Candidates who analyse will explain in detail the impact of a limited number of firms on the equilibrium concepts of price and output produced. Expect to see diagrams explaining how in industries with few competitors price will be pushed upwards, quantity produced may be restricted and not be consistent with allocative and productive efficiency. The ability to earn abnormal or supernormal profits is also a valid effect to consider. Similarly the impact of a large number of firms must be analysed. Expect to see long run monopolistic analysis. Comparison must be made between the two scenarios for good analysis. Examples should be used throughout and are a necessary part of good analysis. An alternative route is to focus on the concept of contestability. Here the number of firms in the industry is not an important factor and emphasis must be placed on	**15**	Although not on the specification, reward relevant analysis of perfect competition. If no examples provided, then max 9 for L3; 5 for L2 and 2 for L1.	**Level 3 (9-15 marks)** Analysis, using examples, of the effect the number of firms has on price, output and profits. 13-15 Good analysis two or more effects. 11-12 Good analysis of one effect or basic analysis of two 9-10 Basic analysis of one effect **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes assertions about how the number of firms affects price, output and profits. 7-8 marks - two types identified and applied 5-6 marks - one type identified and applied **Level 1 (1-4 marks)** Knowledge and understanding of the number of firms in different market structures and/or the concept of equilibrium.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			potential entrants. In the perfectly contestable market there are zero sunk costs, no barriers to entry and exit and the possibility of hit and run behaviour exists. This analysis is, therefore, that the number of firms competing in an industry – incumbent firms – has little effect on equilibrium output if perfect contestability exists. The less contestable is a market then the more significant the traditional theory of the firm becomes. Candidates may also use a simple supply and demand analysis for a product market with the supply curve shifting and causing changes to equilibrium price and quantity. Either approach on its own is acceptable but Level 3 can only be obtained through analysis.			

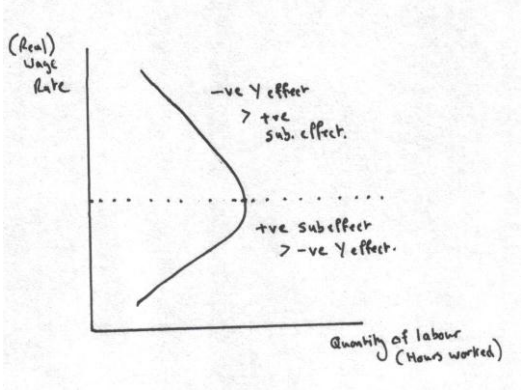
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Question			Answer	Marks	Guidance	
					Content	Levels of response
	b		**Using a leisure industry of your choice, discuss the extent to which it is contestable.** An understanding of contestability must include knowledge of the conditions of a perfectly/highly contestable market. This may include a pool of potential entrants ready to enter the market, costless entry and exit – including the idea of zero sunk costs and hit and run behaviour, all firms being subject to the same regulation and the state of technology and incumbent firms making decisions on the basis of expected behaviour from potential entrants. Candidates are expected to apply these characteristics to a leisure industry of their choice and to carry out an analytical comparison between the conditions of perfectly/highly contestability and their chosen industry. Candidates might move on to examine the conduct/behaviour of both potential entrants and incumbents, as well as the performance of the firms within the industry in terms of profit and efficiency. To develop a two sided answer candidates could either explore different degrees of contestability within the leisure industry or make a comparison using one of the traditional market structures. Accept leisure industries which are not in the specification but be aware of industries which are **not** leisure industries.	**20**	**Level 4(a)** 18-20 marks = good judgement and balanced discussion 16-17 marks = weak judgement and balanced analysis. **Level 4(b)** 13-15 = balanced, two sided discussion with relevant economic analysis of both sides. 11-12 =basic discussion which is predominantly one-sided	**Level 4(a) (16-20 marks)** Discussion which includes a judgement of the extent to which the chosen leisure market is contestable. **Level 4(b) (11-15 marks)** For a balanced discussion of the extent to which the chosen leisure market is contestable. **Level 3 (5-10 marks)** Analysis of why a chosen market is contestable OR not contestable. For 8+ analysis must be related to a leisure industry. **Level 2 (3-4 marks)** Application of knowledge and understanding of contestability. **Level 1 (1-2 marks)** Knowledge of the characteristics of a contestable market. *Quality of Written Communication* is assessed in this question. Please see page 5 for guidelines.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
4	a		**Analyse, using a diagram, how the supply of labour in the short run is determined.** Candidates might show understanding by pointing out that in the short run there may be insufficient time for individuals to change occupation. The supply of labour in the short run is, therefore, determined by changes in the wage rate on offer. In terms of analysis, candidates should focus on the backward sloping labour supply diagram and the income and substitution effects. Analysis will demonstrate that, as wage rates increase, workers substitute work for leisure – the substitution effect, which is always positive. The higher wage will increase the return from work and increase the opportunity cost of leisure. The income effect, which is usually negative at higher wage rates, will reduce the hours worked since, as wages rise, the worker might have hit a target level of income and extra hours of leisure become more affordable. Analysis may explain how the income and substitution effects may dominate at different stages for different workers. Good analysis will explain different relative sizes of income and substitution effects and their impact on the shape of the short run labour supply curve. E.G. substitution effect is greater than the income effect.	15		**Level 3 (9-15 marks)** Analysis which focuses on how the supply of labour is determined in short run 13-15 - Good analysis two or more factors/effects. 11-12 - Good analysis of one factor/effect or basic analysis of two 9-10 - Basic analysis of one factor/effect. **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes assertions about the supply of labour in the short run. 7-8 marks - two factors identified and applied 5-6 marks - one factor identified and applied **Level 1 (1-4 marks)** Knowledge and understanding of the short run and/or the supply of labour

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
			 An alternative approach would be to consider the market supply rather than the individual supply including analysis of the impact of pecuniary and/or non-pecuniary factors.			
	b		**Discuss the extent to which the quality and quantity of training provided by an employer is the most important factor determining the long run supply of labour to that occupation.** In the long run there is time for people to change occupations. The supply of labour to an occupation is influenced by a number of factors - both pecuniary and non-pecuniary. One non-pecuniary factor is the quantity and quality of training provided by an employer. Candidates can develop this factor by analysing the advantages of working for an employer which invests in human capital. Analysis of changes in MRP and productivity benefiting both employer and employee might focus on higher wages, more opportunities for promotion within the firm and more opportunities for employees to move to new positions	**20**	**Level 4(a)** 18-20 marks = good judgement and balanced discussion 16-17 marks = weak judgement and balanced analysis. **Level 4(b)** 13-15 = balanced, two sided discussion with relevant economic analysis of both sides. 11-12 =basic discussion which is predominantly one-sided	**Level 4(a) (16-20)** Discussion that includes a judgement of the extent to which the quantity and quality of training determines the long run supply of labour. **Level 4(b) (11-15)** For a balanced discussion of the extent to which the quantity and quality of training determines the long run supply of labour. **Level 3 (5-10**) Analysis of how the quantity and quality of training determines the long run supply of labour. Also could be analysis of alternative factors

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			outside the firm. Firms might benefit by reduced unit labour costs and increased competitiveness. If employers provide such training at low or no cost and provide transferable skills, then such training programmes will be a significant factor in encouraging supply into that firm. Relevant examples might include apprenticeships or internships where initial low wages do not prevent a high supply of labour in the expectation of higher future wages as a result of improved human capital and transferable skills. On the other hand candidates might point to pecuniary/financial factors as well as a variety of other non-pecuniary factors which determine the long run supply of labour. Factors such as convenience and hours, job security, nature of the job, holidays, perks and fringe benefits, location and the performance of the firm. Good analysis here will not simply list these factors but explain how firms in different occupations will have different appeals to different groups within the labour supply.			**Level 2 (3-4)** Application of knowledge and understanding of how the quantity and quality of training determines the long run supply of labour. **Level 1 (1-2)** Knowledge of quantity and quality of training and/or the long run supply of labour. *Quality of Written Communication* is assessed in this question. Please see page 5 for guidelines.

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Tuesday 10 June 2014 – Afternoon

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

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- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer Section A and **one** question from Section B.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

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- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Cinema – the big picture

A recent report from the UK Film Council has highlighted the continued growth in the number of multiplex cinemas. Multiplex cinemas are defined as purpose-built cinema complexes with five or more screens. In 2010 39% of all cinema sites were multiplex cinemas and their dominance was even greater when considering the number of screens, as shown in Fig. 1.

	1999	**2010**
Multiplex cinema screens	1624	2767
Other cinema screens	1134	904
Total number of cinema screens	2758	3671

Fig. 1 – Number of UK cinema screens by type of cinema provider

One possible reason for the trend towards the multiplex cinema has been the existence of internal economies of scale in the industry. Purchasing economies, such as bulk buying, provide cost advantages to the large multiplex providers such as Odeon, Cineworld and Vue. Total labour costs tend not to be as important as in other industries with cinemas employing small numbers of relatively low paid workers. Their major costs come in the shape of fixed costs, such as rents, rates and the rights to show the latest films. As a result of these advantages the large providers have gained a significant share of a growing market, as shown in Fig. 2.

Provider	**Number of sites**	**Number of screens**	**% of total screens**
Odeon	106	840	22.9
Cineworld	77	784	21.4
Vue	67	642	17.5
National Amusements	21	274	7.5
Ward Anderson	27	229	6.2
Others*	n.a.	n.a.	24.5

* *including 20 major providers and 301 independent single venue providers.*

Fig. 2 – UK cinema screens and sites by provider, 2010

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Cinema competition in Newbury

For many years people in Newbury who wanted to go to the cinema were forced to travel elsewhere if they wanted to see newly released films. The large local cinema had closed and for a period the Corn Exchange was the only place to watch films in Newbury. The Corn Exchange has a single screen with a fixed capacity of only 40 seats and is unable to show the latest new film releases until later than the main multiplex providers. The cinema is only one part of the Corn Exchange's business. It also has space for live performances and exhibitions.

The recent opening of a new Vue multiplex cinema in Newbury did not, however, cause problems for the Corn Exchange. The Corn Exchange remains price competitive, operates a popular loyalty card system and shows a variety of mainstream and minority interest films. It also has showings dedicated to specific groups such as 'Silver Screen' for over-60s and 'You Shall Go To the Bawl' for parents and carers with babies under 18 months.

The Vue cinema, part of a national group, has the benefit of being a high capacity multiplex cinema showing the latest film releases as soon as possible and has little local competition for the service it provides. On a national scale the main challenge to the market dominance of the major multiplex providers might be the growth in the variety of ways in which films are now viewed, as shown in Fig. 3.

Method of viewing films	%
DVD bought	19.8
Live television	19.5
Recorded from television	14.5
Cinema	11.1
Subscription television	10.9
DVD rented	6.2
Others	18.0

Fig. 3 – Share of UK film viewing by viewing method

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SECTION A

Answer **all** parts of the question in this section.

1 **(a)** Using Fig. 1, compare the percentage of all cinema screens operated by multiplex cinema providers in 1999 and in 2010. (Show all relevant calculations in your answer.)

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(b) Other than purchasing economies, state and explain **two** economies of scale which might arise in the cinema industry.

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(c) (i) Explain how the Corn Exchange in Newbury could calculate its unit labour cost.

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(ii) Comment on the implications for a cinema of an increase in its unit labour cost.

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(d) Using information in the case study, discuss the extent to which the cinema industry can be described as contestable. **[8]**

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SECTION B

Answer **one** question from this section.

2 **(a)** Analyse, using a diagram, the impact of a monopsonist employer on the labour market from which it recruits. **[15]**

(b) Discuss the extent to which government intervention is the best method of reducing the labour market failure caused by a monopsonist employer. **[20]**

3 **(a)** Analyse, using diagrams, how changes in marginal revenue product explain the quantity of labour that will be employed. **[15]**

(b) Discuss the extent to which demand side factors alone explain wage differentials in real-world labour markets. **[20]**

4 **(a)** Analyse the main causes of poverty in the UK. **[15]**

(b) Discuss the extent to which reform of the tax and benefits system alone is the best method to reduce poverty in the UK. **[20]**

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SECTION B

Question No. .....

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Start your answer to part **(b)** here

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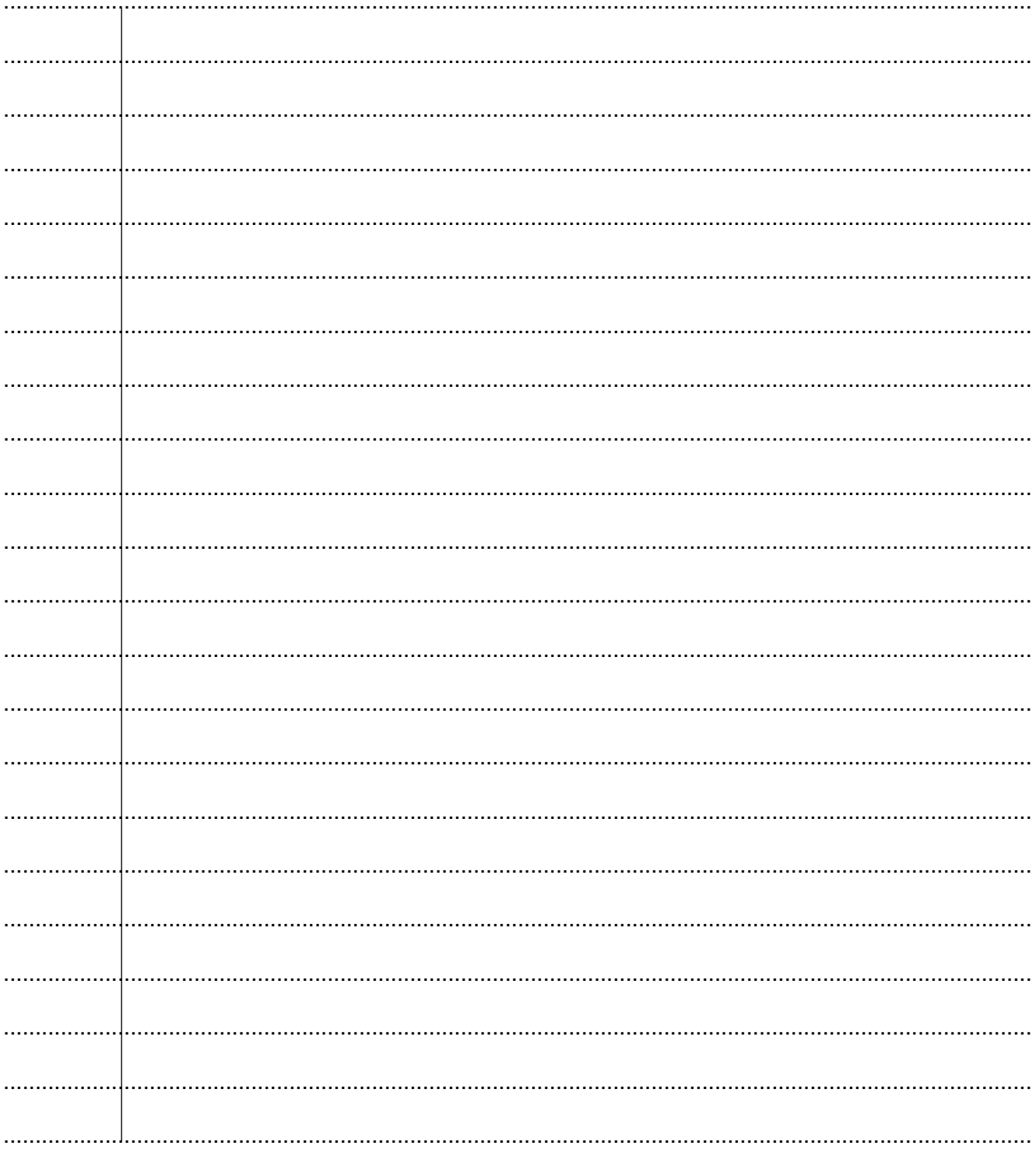
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Tuesday 11 June 2013 – Morning

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

F5301061 3

F 5 8 3 0 1

Candidate forename		Candidate surname	

Centre number						Candidate number				

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- Answer Section A and **one** question from Section B.
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Turn over

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Inequality in the distribution of income – a necessary evil?

A more equal distribution of income within a country is usually seen as a desirable economic objective and national governments, therefore, use a variety of methods to try to achieve a more equal distribution of income. However, economists disagree over which method would be most effective in achieving this objective.

A method of measuring the degree of inequality of income in an economy is to use a numerical measure which produces a number between 0 and 1. The closer the number is to 0, the more equal the distribution of income is in that economy. The change in income inequality in the UK between 1980 and 2010 is shown in Fig. 1.

Year	1980	1990	2000	2010
Numerical measure of income inequality	0.26	0.33	0.35	0.36

Fig. 1 – Numerical measure of income inequality for the UK, 1980–2010

There are many different causes of inequality within an economy and some economists argue that income differentials play a vital part in influencing the incentive to work, and to work harder within an economy.

Low-paid jobs and low-paid regions

Research into the low-paying occupations shows that the greatest numbers of minimum wage jobs are in hospitality, such as bars, restaurants and hotels (245,000) and retail (231,000), which together account for around 44 per cent of all minimum wage jobs. In addition, between 20 per cent and 30 per cent of the workers employed in hairdressing, cleaning and hospitality are paid the minimum wage. This compares with only 7 per cent of the people employed in social care.

Just as low paid jobs are distributed unevenly across sectors, minimum wage jobs are spread unevenly throughout the UK. Northern Ireland is the part of the UK with the highest proportion of minimum wage jobs (6.7 per cent), followed by Wales (5.2 per cent) and England (4.1 per cent), while Scotland has the lowest (3.8 per cent). Looking at regions within England, the North East has the highest (5.8 per cent) while London has the lowest percentage (2.3 per cent) of minimum wage jobs.

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SECTION A

Answer **all** parts of the question in this section.

1 (a) (i) What is meant by inequality in the distribution of income?

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(ii) Using Fig. 1, describe the changes in income inequality in the UK between 1980 and 2010.

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(b) Comment on the extent to which low pay is the main cause of income inequality.

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(c) State and explain **two** possible methods of reducing **regional** income inequality.

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[4]

(d) State and explain **two** reasons why jobs such as hairdressing, cleaning and hospitality have a high percentage of minimum wage workers.

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[4]

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(e) Discuss the effectiveness of progressive taxation in reducing income inequality in the UK.

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Section B begins on page 8

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SECTION B

Answer **one** question from this section.

2 **(a)** Analyse, using a diagram, the behaviour of a monopoly. **[15]**

(b) Discuss, using examples from a leisure industry of your choice, the extent to which competition creates efficiency. **[20]**

3 **(a)** Analyse how the existence of discrimination may lead to labour market failure. **[15]**

(b) Discuss the extent to which government intervention is the best method of improving labour market flexibility in the UK. **[20]**

4 **(a)** Analyse, using examples, the factors which determine the elasticity of supply of labour. **[15]**

(b) Discuss the relevance of marginal revenue productivity theory in wage determination within contemporary, real-world labour markets. **[20]**

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SECTION B

Question No. .....

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GCE

Economics

Advanced GCE

Unit **F583:** Economics of Work and Leisure

Mark Scheme for June 2013

Oxford Cambridge and RSA Examinations

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
	Unclear
	Benefit of the doubt
	Cross
	Effective evaluation
	Irrelevant
	Level one
	Level two
	Level three
	Level four
	Not answered question
	Noted but no credit given
	Too vague
	Tick
	Development of point

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Subject-specific Marking Instructions

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (b) of the essays and should be applied consistently between the different essays:

Level 4(b): Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

Level 3: Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.

Level 2: Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.

Level 1: Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.

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Question			Answer	Marks	Guidance
1	(a)	(i)	**What is meant by inequality in the distribution of income?** Up to two marks For both marks focus must be on income as opposed to wealth. Note income as opposed to wages as income might come from benefits, interest, etc. The concept of inequality must be considered in terms of groups in the economy receiving less/more than a proportionate amount of total income. Candidates might use deciles, quartiles, etc to express this. Inequality in the distribution of income is when there are differences between the income levels (1) of different groups within the economy eg the highest 10% of income earners might receive a significantly higher percentage of income than the lowest 10% of income earners. (1)	2	Simple statements such as • some people earning more than others • rich and poor should not be rewarded Different groups must be clearly identified. Accept answers which focus on an occupation, region, gender and households rather than the whole economy.
		(ii)	**Using Fig. 1, describe the changes in income inequality in the UK between 1980 and 2010.** Up to two marks Inequality increased overall – one mark. Inequality increased/equality decreased significantly from 1980 to 1990 – one mark. Inequality/equality remained fairly constant 1990 to 2010 – one mark. Inequality increased at a slower pace – one mark Accept slight rise in inequality/fall in equality compared to 1980–90 – one mark.	2	Candidates must refer to equality/inequality and not simply describe what has happened to the numerical coefficient. The paragraph in the case study explains the numerical coefficient and candidates should refer to changes in equality and/or inequality.

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Question			Answer	Marks	Guidance
	(b)		**Comment on the extent to which low pay is the main cause of income inequality.** Up to five marks Candidates should analyse how the existence of low pay can lead to income inequality by making comparisons with others on average or above average income.(1) a significant number of the population rely on income from employment for their income and therefore it is likely to be a significant cause of income inequality.(1) Those on low income will tend to be low skilled and with fewer training opportunities and as a result will stay in low paid jobs. For example school leavers might be attracted into NMW jobs rather than stay in education.(1) As a result they do not build up higher level transferable skills and become stuck in low income employment. (1) On the other hand candidates could point out that some low paid people might have relatively high levels of income through transfers or inequalities in the distribution of wealth. Another approach is to consider other causes of income inequality such as households/individuals dependent on state transfers alone eg pensioners, unemployed, students, single parents. Reference could be made to the ability of skilled and qualified workers to push their wages above average earnings. The unequal distribution of wealth is also relevant here.	5	Up to two marks for an analysis of one side of the question. Up to two marks for an analysis of the other side of the question. Plus – one further mark for a judgement/conclusion – if both sides have been analysed.

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Question			Answer	Marks	Guidance
	(c)		**State and explain two possible methods of reducing regional income inequality.** Possible methods of reducing regional income inequality might include • various types of regional policy involving capital or labour mobility eg subsidies to less prosperous regions. • Differential regional minimum wage • Different tax systems in different regions. Methods can be both government intervention and private sector initiatives – eg low wages/rents in an area acting as an incentive for labour/capital to relocate. Accept any, well explained, possible method.	4	Explanation must be on REGIONAL income inequality. General answers on income inequality should receive no marks. Increased mobility can earn **four** marks only if both labour and capital are considered. One mark for each correct identification up to a maximum of two identifications plus a further one mark for each of two explanations.

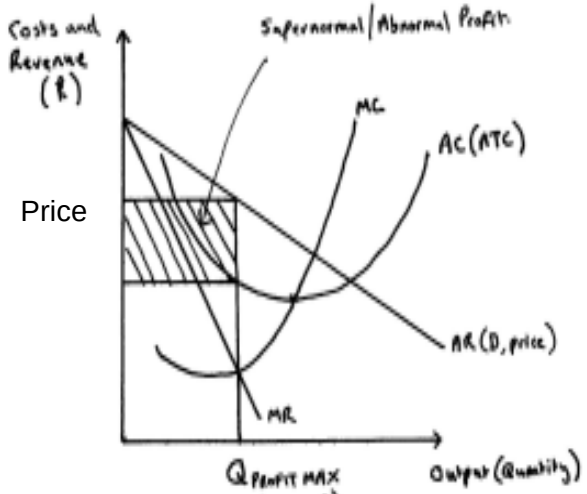
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Question			Answer	Marks	Guidance
	(d)		**State and explain two reasons why jobs such as hairdressing, cleaning and hospitality have a high percentage of minimum wage workers.** Reasons **might be** based on demand and supply side factors. For example: Training and education qualifications required are relatively low (1) and, therefore, the supply of labour is very elastic. Thus increases in the demand for the products/services provided by these workers will not result in wage increases as supply will respond quickly.(1) NMW jobs tend to be low skilled and associated with a low marginal revenue product (1). As a result wages will be low to reflect the low MRP as, in theory, the firm cannot afford to pay workers above their MRP.(1) Regional and national unemployment might be high (1). This creates a large pool of surplus labour putting downward pressure on wages, especially when linked with a lack of aggregate demand.(1) Jobs in these occupations might also be part-time or temporary, dominated by females, lack union representation. All these categories are associated with NMW employment.	4	One mark for each correct identification up to a maximum of two identifications plus a further one mark for each of two explanations. Credit should not be given for a repeated reason. Eg there must be a clear distinction between elasticity of supply analysis and an excess supply analysis for four marks overall.

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Question			Answer	Marks	Guidance
	(e)		**Discuss the effectiveness of progressive taxation in reducing income inequality in the UK.** A progressive tax system, such as income tax in the UK, is one where as income increases the percentage of income paid in tax increases. (1) or the marginal tax rate is greater than the average tax rate (1) As a result progressive taxation has a more than proportionate impact on those on higher incomes.(1) Those on low incomes may even pay no tax on income at all as progressive tax systems usually have a tax free personal allowance.(1) As a result income differentials are reduced. Governments can also then use this tax revenue to transfer income to lower income groups or provide free or subsidised services.(1) Governments could also use tax revenue to create employment opportunity eg infrastructure spending, rather than a simple direct transfer of income. (1) On the other hand progressive income tax will only impact upon those receiving income and will not have a significant impact upon inequality caused by lack of income or no income. It also depends on the government using the tax revenue to transfer income to lower income groups in the form of transfer payments, eg JSA (Job Seekers Allowance). Higher income groups might respond to higher taxation by tax avoidance/evasion. Might lead to 'brain drain' Lower incomes – unemployment/poverty trap. MTR over 100%. Another approach on this side is to consider alternatives to progressive taxation such as increasing the NMW (National Minimum Wage), measures to change social mobility such as greater access to education and training, subsidies for education and training, positive discrimination and maximum wages.	8	Up to eight marks Up to three marks for an analysis of one side of the question. Up to three marks for an analysis of the other side of the question. Plus up to a further two marks for a judgement/conclusion – if both sides have been analysed.

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
2	**(a)**		**Analyse, using a diagram, the behaviour of a monopoly.** Candidates can be expected to begin with an outline of what defines a monopolist in terms of being a single seller, or over 25% in real world, complete barriers to entry, firm being a price maker earning abnormal profits. Using the assumption of profit maximisation a diagram should then be introduced to show the price and output decisions. Analysis should involve the argument that the price will be relatively high due to the strong degree of market power. On the output side the profit maximising level of output should be analysed in terms of lack of both productive and allocative efficiency. MC not equal to AC and MC not equal to AR (price).  Equilibrium	15	13–15 Predominantly correct diagram with good analysis of two or more features. 11–12 Predominantly correct diagram with good analysis of one feature or basic analysis of two. 9–10 Predominantly correct diagram with basic analysis of one feature. **Analysis must involve explicit reference to diagram.** Predominantly correct diagram but no analysis – L2.	**Level 3 (9–15 marks)** Analysis which focuses on the price and output decisions of a monopolist. Level 3 – accept analysis based on alternative decisions of monopolist other than profit maximisation, eg public sector monopoly, marginal cost pricing etc. **Level 2 (5–8 marks)** Application of knowledge. In this case an answer which makes broad assertions about the price and output decisions of a monopolist. A correct diagram without explanation = 8. A predominantly correct diagram without explanation = 7. Application but no diagram = 6 **Level 1 (1–4 marks)** Knowledge and understanding of monopoly.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Analysis points on behaviour might include; • Price and output • Abnormal/supernormal profits • Efficiencies • Price discrimination • Maintaining barriers to entry			

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(b)		**Discuss, using examples from a leisure industry of your choice, the extent to which competition creates efficiency.** Efficiency can take many forms and expect to see an analysis of productive, allocative, Pareto, dynamic and the concept of X-inefficiency. It can be argued that competition creates productive efficiency through the analysis of the requirements of least cost production (AC = MC). Similarly competition will result in prices being driven down to equal marginal cost. Thus creating an allocatively efficient outcome. (Price (AR) = MC) Expect to see perfect market being used to demonstrate and analyse this point – although not on the specification this approach is totally valid. Candidates might also validly introduce the idea of a perfectly contestable market or the long run monopolistic in comparison to a monopoly. X-inefficiency, associated with monopoly control of a market, might be included as way of demonstrating how the break down of monopoly power might create efficiency gains. Competition, however, may not always create efficiency and candidates might point to; The existence of economies of scale/natural monopoly argument Monopolist might reinvest profits into R and D and produce innovation and invention. Dynamic efficiency may result from this	20	**Analysis must be explicit to efficiency.**	**Level 4(a) (16–20 marks)** Discussion that includes a judgement of the extent to which competition creates efficiency 18–20 = two sided, balanced discussion with good judgement. 16–17 = two sided balanced discussion with weak judgement. **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which competition creates efficiency. At this stage alternative views might be introduced and analysed. A discussion lacking balance should receive no more than 12. 13–15 = balanced two sided discussion with relevant economic analysis of both sides. 11–12 = basic discussion which is predominantly one sided. **Two sided analysis, not in context of leisure industry – max 13.**

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Monopolist might not have objective of profit maximisation – public sector monopoly argument. Candidates should use examples from their chosen leisure industry to illustrate these points.			**Level 3 (5–10 marks)** Analysis of how competition creates or does not create efficiency. One side, not in context of a leisure industry – Max 7 marks. **Level 2 (3–4 marks)** Application of knowledge and understanding of how competition creates efficiency. **Level 1 (1–2 marks)** Knowledge of competition and or efficiency

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Question			Answer	Marks	Guidance	
					Content	Levels of response
3	(a)		**Analyse how the existence of discrimination may lead to labour market failure.** Discrimination can take many forms age, sex, race, etc and can be both positive and negative. Theories explaining discrimination include those such as Becker's Theory and the concept of statistical discrimination. Becker argues that employers may be prepared to experience higher costs rather than employ members of certain groups. Statistical discrimination arises because of imperfect information. When deciding whom to employ, how much to pay and who to promote and train employers make decisions based on generalisations about groups of workers. Negative discrimination results in an inefficient allocation of resources and inequitable wage differentials for a range of reasons, Those discriminated against suffer low pay and lack of employment opportunity Producers have a smaller pool of labour to choose from leading to productive inefficiency Consumers experience higher prices and less choice – allocative inefficiency Governments pay out more in benefits and anti-discrimination legislation Whole economy operates below potential output. Positive discrimination can also be expected to produce similar types of market failure and inefficiencies.	15		**Level 3 (9–15 marks)** Analysis which focuses on why discrimination causes labour market failure. 13–15 = good analysis of two or more. 11–12 = good analysis of one feature or basic analysis of two reasons. 9–10 = basic analysis of one reason why discrimination might lead to market failure. **Level 2 (5–8 marks)** Application of knowledge. In this case an answer which makes broad assertions about the effect of discrimination on labour market failure. **Level 1 (1–4 marks)** Knowledge and understanding of discrimination or labour market failure

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		**Discuss the extent to which government intervention is the best method of improving labour market flexibility in the UK.** A flexible labour market is dynamic in that it adjusts quickly and smoothly to changes in demand and supply conditions. Various types include numerical, temporal, locational, functional and wage flexibility. The key aspects are labour mobility both occupational and geographical, flexible working patterns such as part-time, variable hours, shift work, temporary contracts and wage flexibility where wages act as a signal to allocate labour resources where they are most productive. Government intervention to achieve labour market flexibility can include legislation on a range of areas such as increased labour market information, training and education. Cuts in marginal tax rates and unemployment benefits act as policies which impact the incentive to work. Also National Minimum Wage legislation might increase the incentive to work. Regional policy could also be argued to have an impact. Firms will find it easier to adjust to changes in demand if the supply of labour becomes more responsive to changes in wage rates. (Answers need not be limited to UK legislation. Answers based on EU legislation are totally acceptable.) Those going down the EU route might include the Social Chapter, rights for part-time workers, working time directive and directives on agency workers.	20		**Level 4(a) (16–20 marks)** Discussion that includes a judgement of the extent to which government intervention affects labour market flexibility in UK. 18–20 = two sided, balanced discussion with good judgement. 16–17 = two sided balanced discussion with weak judgement. **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which government intervention affects labour market flexibility in UK. At this stage alternative views might be introduced and analysed. A discussion lacking balance should receive no more than 12. 13–15 = balanced two sided discussion with relevant economic analysis of both sides. 11–12 = basic discussion which is predominantly one sided.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			On the one hand government legislation might be the best method to create a flexible labour market and candidates might point out the positive impact of; Increased incentive to work. Increased incentive to work harder. Improved occupational mobility. Improved geographical mobility. Changes to the elasticity of supply of labour through education and training. On the other hand candidates could go on to both criticise the power of government intervention and suggest alternative methods of improving labour market flexibility. Problems with government intervention might include, Workers might not respond as suggested to tax and benefit cuts Increased desire to work also requires demand for labour to exist Cost to government in terms of opportunity cost might be considered too high and an inefficient use of resources. Some legislation might impose costs on the employer and reduce the number of people employed, eg maternity/paternity leave and employment protection. Government intervention might simply, therefore, create government failure and not generate flexibility. Candidates could argue that the most flexible market would be one without any government intervention at all, where market forces govern the supply and demand for labour. This creates an opportunity to discuss the rationale behind government intervention.			**Level 3 (5–10 marks)** Analysis of how government intervention affects labour market flexibility in UK in either a positive or negative manner or non-EU methods of increasing labour market flexibility in UK. **Level 2 (3–4 marks)** Application of knowledge and understanding of how government intervention affects labour market flexibility. **Level 1 (1–2 marks)** Knowledge and understanding of government intervention or labour market flexibility.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
4	(a)		**Analyse, using examples, the factors which determine the elasticity of supply of labour.** The responsiveness of the supply of labour to a change in the wage rate is the elasticity of supply of labour and the factors which influence it are: the qualifications and skills required – supply of skilled workers is more inelastic than that of unskilled the length of training – the longer the training period the more inelastic the immobility of labour both geographical and occupational – the greater the level of mobility the more elastic the supply. the time period – inelastic in the short term and more elastic in the long term. Candidates are expected to state and explain the factors and use them to explain **why, when wages change**, the reaction may be either responsive or non responsive.	15	Be careful **not** to credit any material based on factors affecting the supply of labour. **No ref to change in wages. L2 max.**	**Level 3 (9–15 marks)** Analysis which focuses on the factors which influence elasticity of supply of labour. 13–15 = good analysis of two or more factors. 11–12 = good analysis of one factor or basic analysis of two factors. 9–10 = basic analysis of one factor. **Analysis which does not include examples = Max 9.** **Level 2 (5–8 marks)** Application of knowledge. In this case an answer which makes assertions about the factors affecting elasticity of supply of labour without going on to provide detailed analysis. If appropriate examples are given then award at least 7 marks. **Level 1 (1–4 marks)** Knowledge and understanding of what elasticity of supply is.

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(b)		**Discuss the relevance of marginal revenue productivity theory in wage determination within contemporary, real-world labour markets.** The marginal revenue product of labour is the change in a firm's total revenue from employing one more worker. It is found by multiplying the MPP by the price of the product or the marginal revenue – the extra revenue from selling one more product. The MRP curve, in effect, becomes the demand curve for labour. Changes in MRP can therefore result from either a change in the price of the product or a change in the productivity of labour**. An increase in either will shift the MRP curve to the right.** Assuming that the supply of labour remains constant then this change will result in wages rising in that occupation. Similarly a shift to the left of the MRP curve causes wages to fall. On the other hand, candidates may go on to discuss the difficulty of measuring the MPP of an individual worker or workers in particular industries, such as the tertiary sector, eg doctors, teachers. Candidates can be expected to select and analyse occupations where MRP theory is thought to be a very important factor in determining wages and/or employment.		Candidates **not** using examples of real world labour markets are limited to a maximum of 13 marks.	**Level 4(a) (16–20 marks)** Discussion that includes a judgement of the relevance of MRP theory in wage determination within real world markets 18–20 = two sided, balanced discussion with good judgement. 16–17 = two sided balanced discussion with weak judgement. **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which MRP theory and supply side factors affect wages within real world markets. A discussion lacking balance should receive no more than 12. 13–15 = two sided discussion with relevant economic analysis of both sides. 11–12 = basic discussion which is predominantly one sided.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Another approach is to analyse alternative wage determination theories. Wage determination is a product of both demand and supply factors. Candidates may consider extra demand factors such as the derived demand, the state of the economy. The supply side must also play a role in wage determination. The factors affecting the supply of labour to an occupation should be considered and an analysis of the different levels of elasticity of supply in different labour markets would be very important in explaining wage differentials. The impact of Trade Unions on supply and government intervention such as National Minimum Wage can also be considered. Candidates may analyse the market power of both employer and employees in real world markets and its effect on wages and employment.			**Level 3 (5–10 marks)** Analysis of how MRP theory affects wages within real world markets or how factors other than demand are important in determining wages within real world markets. One side analysis with no reference to world labour markets = max 7 **Level 2 (3–4 marks)** Application of knowledge and understanding of how MRP theory affects wages within real world markets. **Level 1 (1–2 marks)** Knowledge and understanding of the MRP theory, wages and how they are determined.

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OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

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Email: general.qualifications@ocr.org.uk

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Tuesday 22 January 2013 – Morning

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to Section B.
- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Turn over

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The economic impact of holidays and leisure travel

Big Pit

Big Pit is a real coal mine in South Wales and is one of Britain's leading mining museums. With facilities to educate and entertain all ages, Big Pit is an exciting and informative day out.

Entrance to Big Pit is free and visitor numbers are over 1.5 million per year. Partly because of its educational value, the vast majority of its income comes from a subsidy provided by the Welsh Assembly government. In 2009–10, this subsidy accounted for over £25m and represented over 80% of Big Pit's revenue.

Bed and breakfast

Mr and Mrs Parry use part of their home in South Wales as a small bed and breakfast business. It is located in an area which is popular with walkers and birdwatchers. However, Mr and Mrs Parry are struggling to make the business profitable. Despite not increasing their prices for the last three years, they have struggled to fill all of their rooms on a regular basis. The number of tourists staying with them has actually declined but their costs have risen significantly. Increases in heating costs, food bills and Council Tax are all making it very difficult to stay in business and they have been focusing on simply avoiding a loss and surviving as a business in the short run. It is also difficult to plan ahead as many tourists are leaving their bookings until the last minute or cancelling at short notice.

The coastal area in which Mr and Mrs Parry's business is situated has plenty of other bed and breakfast establishments, as well as hotels and camping and caravan sites. Several local competitors have already stopped operating as bed and breakfast businesses and Mrs Parry is not optimistic about the future.

"The major financial problems are the Council Tax, the cost of advertising and the cost of complying with health and safety regulations. If we operate as a business, we have to pay these bills no matter how many paying guests we attract", said Mrs Parry.

The changes in the pattern of tourists visiting Wales can be seen in Fig. 1.

	2005	2006	2007	2008	2009
All UK domestic trips to Wales (millions)	39	36	32	32	33
% of UK domestic trips to Wales for holiday purposes	80%	81%	82%	82%	84%

Fig. 1 – Tourists travelling to Wales, 2005–09

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Tourism under threat in Wales

A recent study estimated that tourism in Wales accounts for 13.3% of its GDP and 12.7% of total employment. Tourism expenditure is estimated to account for 10% of all spending on transport and retail items in Wales.

The biggest threats to tourism in Wales in the immediate future are rising costs, and a reduction in the number of visitors and how much they spend.

Costs are rising rapidly in every part of the industry. Taxation and business rates have increased, as well as soaring food and energy prices. When real incomes fall, people reduce the number of holidays they take and the amount of money they spend whilst on holiday. There are signs that holidays in Wales may be on the decline.

The Wales Tourism Alliance, a representative body of 23 organisations covering the whole of the tourism industry in Wales, is very clear that it is not arguing that the tourism industry should receive state funding ahead of areas such as health or education. Instead, it argues that investment in tourism now will enable the government to have more to spend on hospitals and schools in the future.

The relative importance of tourism to a number of different European countries is shown in Fig. 2.

Country	Tourism as % of GDP
Croatia	25.5
Cyprus	21.4
Germany	8.6
Montenegro	24.6
Spain	17.2
UK (including Wales)	9.2
Wales	13.3

Fig. 2 – Tourism as a share of European countries' GDP, 2008

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SECTION A

Answer **all** parts of the question in this section.

1 **(a)** Explain the difference between work and leisure.

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..... **[3]**

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(b) (i) Using Fig. 1, calculate the change in the number of UK domestic trips to Wales for holiday purposes between 2005 and 2009.

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..... **[3]**

(ii) Using information from the case study, comment on the impact of holidays and leisure travel on the economy of a country.

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..... **[5]**

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(c) State and explain **two** possible reasons why Mr and Mrs Parry's bed and breakfast business might be operating in a contestable market.

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2 .....

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..... **[6]**

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(d) Discuss the different objectives of **both** Big Pit **and** Mr and Mrs Parry's bed and breakfast business.

.... **[8]**

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SECTION B

Answer **one** question from this section.

2 **(a)** Analyse, using examples, the factors which determine the elasticity of demand for labour. **[15]**

(b) Discuss the extent to which the elasticity of demand for labour is the main determinant of wages in an occupation. **[20]**

3 **(a)** Analyse the economies of scale which may arise in a leisure industry of your choice. **[15]**

(b) Discuss the extent to which a leisure industry of your choice is an oligopoly. **[20]**

4 **(a)** Analyse, using examples, how the existence of segmented labour markets may lead to labour market failure. **[15]**

(b) Discuss the extent to which government intervention can reduce labour market failure caused by segmented labour markets. **[20]**

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SECTION B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

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GCE

Economics

Advanced GCE

Unit **F583:** Economics of Work and Leisure

Mark Scheme for January 2013

Oxford Cambridge and RSA Examinations

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
	Unclear
	Benefit of the doubt
	Cross
	Effective evaluation
	Irrelevant
	Level one
	Level two
	Level three
	Level four
	Not answered question
	Noted but no credit given
	Too vague
	Tick
	Development of point

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Subject-specific Marking Instructions

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (b) of the essays and should be applied consistently between the different essays:

Level 4: Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

Level 3: Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.

Level 2: Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.

Level 1: Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar.

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Question			Answer	Marks	Guidance
1	(a)		Candidates can be expected to define both work and leisure. Work – can be paid (1) or voluntary (1). Accept appropriate definition. Leisure is the time which people have left to spend in ways they wish after they have completed their work/education (1) and maintenance commitments (1). Maintenance – activities necessary for existence eg childcare, eating, domestic work. Explicit use of the term maintenance is **not** required for full marks.	3	Tick per mark.

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Question			Answer	Marks	Guidance
	(b)	**(i)**	Trips fell by 3.48m (3) One mark for trips fell, without any calculations shown. Method marks if answer incorrect; 2005 – number of trips = 80% of 39m = 31.2m (1) 2009 – 84% of 33m = 27.72m (1)	3	Tick per mark Must be some indication that number falls for full marks eg fell, negative sign, fewer etc. Must be million to gain full marks.
		(ii)	Candidates are expected to take a two sided approach explaining the positive and negative impacts of tourism. Positive impacts might include the effect on employment and output. The multiplier effect is very appropriate in its generation of income and employment in the recipient economy. On the other side candidates might **either** point out the negative side – some income/profit might not be ploughed back into the recipient economy. Tourism might create short term low income jobs rather than higher paid higher skilled jobs. Effect of loss of tourism, eg reduction in trips to Wales from UK. **Or** point out what the positive effects depend on. Perfectly acceptable to take a positive/negative externalities approach or to use, say, negative externalities as one side of argument. Judgement might use Fig. 2 in that the impact of tourism depends on the relative size of tourism as a % of GDP. Up to two marks for an analysis of one side of the question. Up to two marks for an analysis of the other side of the question. Plus – one further mark for a judgement/conclusion – if both sides have been analysed.	5	Tick per mark. Do not accept same argument on both sides of the commentary. eg a rise in tourism creates employment and a fall in tourism reduces employment. Only reward on one side. Be aware of information lifted from the text without analysis. However such information included as part of analysis is perfectly acceptable. Judgement mark cannot be awarded if impact on the economy is not analysed.

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Question			Answer	Marks	Guidance
	(c)		One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks in each two explanations. Candidates might state and analyse the following: Ease of entry into market/no or low barriers to entry. Could be actual or potential entrants. Sunk costs. Opportunity to hit and run/high level of potential competition. All incumbent firms have access to same type of technology/ Similar cost structures/ Perfect knowledge. Ability to earn supernormal or just normal profit Brand loyalty. For the further two marks point must be well explained. No marks for analysis based on large number of firms.	6	Tick per mark. Be careful of overlap between factors. Depth of analysis required for second analysis mark.

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Question			Answer	Marks	Guidance
	(d)		Up to three marks for an analysis of one side of the question. Up to three marks for an analysis of the other side of the question. Plus – up to a further two marks for a judgement/conclusion – if both sides have been analysed. Points might include how their different objectives influence their conduct/behaviour. Objectives for Big Pit might include: Providing education and entertainment Employment Boost tourism in the area Maximising utility Allocative efficiency Increasing consumer satisfaction. Maintaining its subsidy/justifying subsidy Accept any relevant and well analysed objective. Mr and Mrs Parry's objective might include: Maximium profit Sales maximisation Sales revenue maximisation Satisficing Normal profit/ break even Survival Accept any relevant and well analysed objective Discussion points might involve public and private sector differences, similarity in objectives, different objectives of stakeholders, and the relative importance of tourism to GDP using Fig. 2.	8	Tick per mark. Accept the following approaches: An answer which analyses one objective for each business with the judgement comparing the two objectives. (3+3+2) An answer which analyses multiple objectives for each business and then makes a judgement for each business. (3+1 and 3+1)

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
2	**(a)**		Candidates are expected to state and explain the factors which determine the elasticity of demand for labour and use them to explain why **when wages change** the reaction may vary in the degree of responsiveness. Elasticity of demand is the responsiveness of the demand for labour in reaction to a change in the wage rate. Factors influencing this include: The price elasticity of demand for the product – eg if demand for product is inelastic then demand for labour may be inelastic as wage increases can be easily passed on to the consumer. The proportion of wage costs in total costs – if labour costs are a very high percentage, then changes in wage costs will be significant to the firm and demand for labour will be elastic. Ease with which labour can be substituted – if labour can be easily replaced then elastic. Elasticity of supply of complementary factors – if wages fall and it is easy to obtain more of the factors which are used with labour then demand for labour will be elastic. Time period – more elastic in the long run.	15	Analysis must be based on the reaction to a **change in wage.**	**Level 3 (9–15 marks)** Analysis which focuses on the factors which influence elasticity. 9–10 marks = Basic analysis of one factor. 11–12 marks = Good analysis of one factor or basic analysis of two factors. 13–15 marks = Good analysis of two or more factors. **Level 2 (5–8 marks)** Application of knowledge. In this case an answer which makes assertions about the factors affecting elasticity of demand for labour without going on to provide detailed analysis. 5–6 marks = one factor identified and applied 7–8 marks = two or more factors identified and applied **Level 1 (1–4 marks)** Knowledge and understanding of what elasticity of demand is.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			For example, ''One factor which determines the elasticity of demand for labour is the price elasticity of demand for the product which labour produces (L1). If the demand for the product produced is inelastic then the demand for labour will be inelastic (L2). This is because any **increase in wages** will not result in a significant fall in demand for labour as the firm can increase the price of the product. In effect the **increase in wages** is passed on to the consumer. (L3).			

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(b)		Candidates might be expected to focus on the role of price elasticity of demand in wage determination. The general argument being that the more inelastic the demand the more likely that wages in that occupation will be driven upwards. When demand is inelastic, wage increases will not be met by reductions in employment but by increases in wages. Similarly an elastic demand may result in wages being held down. Candidates may also move on to Trade Unions bargaining strength pointing out that a union has more bargaining strength when demand for labour is inelastic. These relationships must be clearly explained and analysed in order to achieve Level 3. Wages are the result of the interaction of supply and demand and the other side of the argument might be to look at the supply and elasticity of supply factors. Other approaches might be to consider the relative bargaining positions in the occupation, eg the monopsonist employer, the impact of Trade Unions on the supply side or the influence of government intervention in the labour market.	20	Analysis on the effect of elasticity of demand must focus on the impact on wages. There may be overlap with part (a) of the question but only credit analysis which focuses on wage determination. Analysis which confuses high/low demand and shifts in demand with elasticity of demand should not be rewarded.	**Level 4(a) (16–20 marks)** Discussion that includes a judgement of the extent to which wages are determined by elasticity of demand. 18–20 marks = good judgement and balanced discussion. 16–17 marks = weak judgement and balanced discussion. **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which elasticity of demand for labour determines wages in an occupation. A discussion lacking balance should receive no more than 13. 13–15 = balanced two sided discussion with relevant economic analysis of both sides. 11–12 = basic discussion which is predominately one sided. **Level 3 (5–10 marks)** Analysis of how price elasticity of demand or other factors may be important in determining wages. **Level 2 (3–4 marks)** Application of knowledge and understanding of how elasticity of demand affects wage determination or simply wage determination itself. **Level 1 (1–2 marks)** Knowledge of elasticity of demand for labour and/or wage determination.

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
3	**(a)**		Candidates should analyse the different economies of scale in leisure markets. If there is no relevant applications made to leisure markets then award a mark at the bottom of the relevant level (eg 5 marks OR 9 marks). An answer with no leisure application can therefore gain 9 marks max. **Relevant economies of scale include:** • Technical • Purchasing/commercial • Managerial • Financial • Risk bearing (or economies of scope) • Marketing • Selling • Improved infrastructure • The development of 'cluster' firms (around an airport, for example) • Firms colluding in an industry to fund R&D **Relevant analysis of these include:** Purchasing EOS (L1) arise with cinemas buying food and drink in greater bulk (basic L2). This results in lower Average Costs (basic L3) as firms are able to gain discounts and hence the cost of buying each successive unit diminishes despite total cost rising (good L3)	15	**Level 3** = analysis of HOW each economy of scale results in lower average costs OR lower costs per unit **Level 2** = identification AND explanation of economies of scale **Level 1** = identification of types of economies of scale The key difference here is between L2 and L3. To gain analysis marks, candidates must analyse why the example given results in lower Average Costs . **An answer simply listing types of EOS can gain up to 4 marks max. (Level 1).** Simple reference to "*For example, purchasing / financial EOS (1) lead to lower AC"* IS NOT ANALYSIS until there is some explanation of why average costs fall.	**Level 3: (9–15 marks)** Analysis of HOW each named economy of scale results in lower AC's. *If there is no reference to falling LONG RUN average costs (either on a diagram or in writing) then mark at the lower end of each band within the level (eg 13-14 / 11 /9 marks).* 13–15 marks: *Good analysis:* Good analysis of two or more economies of scale in the context of a leisure market 11–12 marks: *Good analysis*: Good analysis of one economy of scale OR basic analysis of two in leisure context 9–10 marks: *Basic analysis:* Basic analysis of one economy of scale. **Level 2: (5–8 marks)** For an application of knowledge and understanding of different econs of scale: 7–8 marks: 2 or more economies of scale identified and explained in the context of a leisure market. 5–6 marks: One economy of scale identified and explained in the context of a leisure market = 6 marks

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Technical EOS arise (L1) as when travel firms expand they take advantage of larger capacity (L2). With larger planes travel firms will benefit from lower average costs (basic Level 3). This is because capacity may double but total costs of running planes rise more slowly. Hence reducing average costs (good L3). Managerial EOS occur (L1) with broadcasting companies now able to employ specialist managers, for example HR and accountants (L2). Such specialists will allow the firms to benefit from lower AC's (basic Level 3). Specialists should be more productive ….. increasing output and lowering AC's (good L3). Improved infrastructure provision is an external EOS (L1). For example, the growth of transport firms may well result in local authorities building new and improved roads nearby (L2) which enables firms to enjoy lower AC's (basic L3). This is because improved infrastructure cuts the cost of delivering catering / fuel to airports, therefore lowering AC's (good L3) in the long run.		Expect candidates to use leisure industries from the specification. Credit leisure industries not in the specification eg supermarket shopping.	One or more economies of scale identified and explained but NOT in a leisure context = 5 marks **Level 1: (1-4 marks)** Knowledge & understanding of economies of scale: 3–4 marks: identification of two or more economies of scale not applied to leisure markets 1–2 marks: identification of one economy of scale not applied in leisure markets OR a general definition of EOS

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(b)		Analysis should be focused on the way in which the industry chosen performs in comparison to the theoretical model of oligopoly including: Barriers to entry/exit. The number of firms in the industry which might involve the introduction of concentration ratios. Degree on interdependence. Degree of price and non price competition. Collusion. The ability to earn supernormal profits in both the short run and long run. Distinction between short run and long run behaviour. The level of differentiation of the product – candidates might distinguish between perfect oligopoly (homogenous product) and imperfect oligopoly (differentiated product). Ability to be a price maker. A good answer at Level 3 will deal with at least two of the points above and analyse the chosen industry by the extent to which it fits the oligopolistic structure. The candidate might then go on to discuss the extent to which the chosen industry is oligopolistic and suggest aspects in which it might be considered not oligopolistic but perfectly competitive, monopolistic or monopoly.	20	To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum Level 2 mark.	**Level 4(a) (16–20 marks)** Discussion which includes a judgement of the extent to which the chosen market is oligopolistic. 18–20 marks = good judgement and balanced discussion. 16–17 marks = weak judgement and balanced discussion. **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which the chosen market is oligopolistic. A discussion lacking balance should receive no more than 13. 13–15 = balanced two sided discussion with relevant economic analysis of both sides. 11–12 = basic discussion which is predominately one sided. **Level 3 (5–10 marks)** Analysis of why a chosen market is oligopolistic OR not oligopolistic. For 8+ analysis must be related to a leisure industry.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Also accept answers which focus on the degree of contestability in the market compared to the levels associated with oligopoly. Again, the focus should be on the major aspects of market structure and good analysis would see plenty of use of terms from the economic tool box. Candidates might also argue in terms of behaviour which is an acceptable addition, but not a substitute for consideration of how well the real world structure fits the theoretical model.			**Level 2 (3–4 marks)** Application of knowledge and understanding of how an industry may be oligopolistic. **Level 1 (1–2 marks)** Knowledge of structure of oligopolistic competition.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
4	(a)		Segmented labour markets exist because of barriers which prevent the free movement of workers between different sections of the labour market. In practice there is not one labour market but a number of different and distinct markets for labour. The most obvious barrier being skills and qualifications, but candidates might consider others such as location, existence of a closed shop, discrimination, financial, lack of information etc Also accept analysis based on core and peripheral workers. If no barriers to entry or exit existed then it would be expected that market forces would move factors from low wage to higher wage jobs, therefore, equalising wages. The existence of barriers, therefore, might create market failure as the market forces of supply and demand for labour cannot equalise the wage. Candidates might usefully point out that barriers might be necessary to increase the efficiency of labour markets – eg medical skills and qualifications to practise as a doctor.	15	Expect candidates to define market failure. Examples of labour market failure might include the following; Surplus of labour (inc. unemployment) Shortage of labour Workers in jobs they are not suited for Lack of training Wage rates above or below the equilibrium rate. Productive and allocative inefficiency. Accept any relevant and appropriate example of labour market failure. **If no examples used only bottom mark of each level can be awarded**.	**Level 3 (9–15 marks)** Analysis of how segmented labour markets cause market failure. 13–15 marks = good analysis of two or more reasons. 11–12 marks = good analysis of one reason or basic analysis of two. 9–10 marks = basic analysis of one reason. **Level 2 (5–8 marks)** Application of knowledge. In this case an answer which makes broad assertions about segmented labour markets and how they cause market failure. **Level 1 (1–4 marks)** Knowledge and understanding of segmented labour markets and/or market failure.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Barriers to entry might cause a market to be segmented (L1). An example of this is a skill barrier which only allows certain types of labour to join the labour market (L2) This creates market failure by forcing up wages in the protected market above the equilibrium rate.(L3) Another example is, in theory, the closed shop operated by a trade union (L2) this causes market failure by limiting the supply of labour and driving up wages in the protected occupation.(L3)			

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(b)		The methods of government intervention might include: Education and training in order to reduce the barriers to entry, greater opportunities to benefit from higher and further education. Trade Union legislation to remove practices such as the closed shop Improved access to occupations via apprenticeship schemes. Information provision. Accept any analysis of an example of government intervention which clearly addresses the problems associated with the barriers to entry/exit producing segmented labour markets. Intervention can be potential policies as well as actual policies. To create a balanced discussion candidates might **either** consider the costs and benefits of government intervention **or** consider alternative private sector methods of solving the problem. These might include, for instance, training schemes sponsored by private companies or groups of companies. Again accept any actual or potential intervention which deals with reducing the barriers to a segmented labour market.		Analysis of National Minimum Wage as a method of intervention is relevant if applied to the reduction or removal of barriers to entry eg increasing NMW to encourage entry into labour market to solve labour shortages or regional minimum wages to solve the distribution of unemployment.	**Level 4(a) (16–20 marks)** Discussion that includes a judgement of the extent to which government intervention could be used to cure market failure caused by segmented labour markets. 18–20 marks = good judgement and balanced discussion. 16–17 marks = weak judgement and balanced discussion. **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which government intervention could be used to cure market failure caused by segmented labour markets. Or two sided on alternative methods of solving problem of segmented labour markets. A discussion lacking balance should receive no more than 13. 11–12 marks = basic discussion which is predominately one sided Brief analysis of advantages and limitations of government intervention to reduce labour market failure caused by segmented labour markets. 13–15 marks = balanced two sided discussion with relevant economic analysis of both sides.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
						Must include more depth and detailed analysis of advantages and limitations of government intervention to reduce labour market failure caused by segmented labour markets. **Level 3 (5–10 marks)** Analysis of how government intervention could be used successfully or not successfully to cure market failure caused by segmented labour markets. Also could be analysis of alternatives to government intervention. **Level 2 (3–4 marks)** Application of knowledge and understanding of use of government intervention to cure market failure caused by segmented labour markets **Level 1 (1–2 marks)** Knowledge of government intervention and/or segmented labour markets.

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1 Hills Road
Cambridge
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Tuesday 12 June 2012 – Afternoon

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be assessed on the quality of your written communication in Section B.
- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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The market for TV broadcasting – too much of a good thing?

In 2009, Ofcom, the body with responsibility for regulating the communications market, published a report on TV broadcasting. One of the conclusions it came to was that, during 2008, the revenue of the TV industry grew by only £0.1bn to reach £11.2bn (see Fig. 1).

One consequence of this slowdown in revenue growth was seen in the impact on the production of new, original programmes and the increased use of repeat programmes. The five most popular channels' broadcast of original programmes was down by 3% on 2007 and by over 5% since 2003. The report commented that broadcasting of repeat programmes across all channels accounted for 87% of output.

Fig. 1 – Sources of revenue for the UK TV broadcasting industry

	2003	2004	2005	2006	2007	2008
Total TV broadcasting industry revenue (£bn)	9.2	10.0	10.5	10.6	11.1	11.2
Proportion of revenue generated from public funds	26%	24%	25%	25%	25%	24%
Proportion of revenue generated from advertising	34%	35%	35%	33%	32%	31%
Proportion of revenue generated from subscription	35%	34%	35%	35%	37%	39%
Proportion of revenue generated from other sources	5%	7%	5%	7%	6%	6%
TV advertising as a proportion of total advertising expenditure	30.2%	29.6%	29.6%	27.9%	26.9%	26.5%
Number of channels available	294	379	416	433	470	495

A choice of a thousand TV channels in the UK

Ofcom, the broadcasting watchdog, says that Britain is set to license its 1,000th channel soon, more than in any other country apart from the USA.

'There is no doubt that the 1,000th TV licence will have great significance,' said Mark Lawson, presenter of Radio 4's Front Row programme. 'It wasn't that long ago that we saw the launch of Channel 4 (1982) and then Channel 5 (1997), but the danger, as most people will probably acknowledge, is that the opening up of television was never about ensuring quality – it was mainly about quantity.'

This large number of channels is partly down to the low costs of running a British television station – £2,500 to bid for a licence, with an annual fee of just £1,000. As a result, almost every possible taste is catered for, offering a fascinating snapshot of modern British life.

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Like many other new TV operators, Revelation, a religious broadcaster, is run from a small studio. Unlike the majority of channels, however, it carries no mainstream advertising and relies on donations from a faithful audience for its revenue. The broadcasters admit they have 'no idea' how many viewers they have.

The increased choice of TV channels has meant that the historical dominance of the BBC has declined and, in 2008, television viewers made full use of the variety of channels available (see Fig. 2).

Fig. 2 – Top 10 TV channels by market share in multi-channel homes (2008)

Channel	Market Share (%)
BBC One	20.4
BBC Two	7.0
BBC Three	1.2
ITV 1	17.2
ITV 2	2.4
ITV 3	1.7
Channel 4	7.4
E4	1.8
Five	4.7
Sky Sports	1.4
Others	34.8

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Section A

Answer **all** questions from this section.

1 **(a)** Using Fig. 2, calculate the three firm concentration ratio based on market share for TV channels in multi-channel homes.

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..... **[2]**

(b) Using the case study, identify **one** example of a fixed cost. Explain why your example is a fixed cost in the TV broadcasting industry.

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..... **[3]**

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(c) Fig. 1 shows a decline in the proportion of television revenue generated from advertising.

State and explain **two** possible reasons for this decline.

1. .....

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2. .....

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..... **[4]**

(d) One of Ofcom's roles is to regulate the TV broadcasting industry.

Explain the impact of regulation on the TV broadcasting industry.

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..... **[3]**

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(e) Comment on whether an increased number of TV channels benefits the consumer.

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(f) Discuss the extent to which the TV broadcasting market is an oligopoly.

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Section A Total: [25 marks]

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Section B

Answer **one** question from this section.

2 **(a)** Analyse, using examples, the factors which determine the elasticity of supply of labour to an occupation. **[15]**

(b) Discuss the extent to which migration may be considered to have a positive impact on labour markets. **[20]**

3 **(a)** Analyse how changes in the degree of income inequality in an economy can be measured. **[15]**

(b) Discuss the extent to which the reform of the tax and benefit system alone can reduce the level of income inequality in the UK. **[20]**

4 **(a)** Analyse, using examples, how skill shortages may lead to labour market failure. **[15]**

(b) Discuss the extent to which directives from the European Union (EU) have a beneficial impact on the UK labour market. **[20]**

Section B Total: [35 marks]

Paper Total: [60 marks]

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Section B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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Additional answer space. Any answers written in this space must be clearly numbered.

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RECOGNISING ACHIEVEMENT

GCE

Economics

Advanced GCE

Unit **F583:** Economics of Work and Leisure

Mark Scheme for June 2012

Oxford Cambridge and RSA Examinations

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Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Effective evaluation
	Irrelevant
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too vague
	Tick
	Development of point

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Question			Answer	Marks	Guidance
1	(a)		20.4+17.2+7.4 = 45% = two marks. Correct value but no percentage = one mark eg 45 One mark if method correct but wrong total. Candidates may treat BBC One, BBC Two and BBC Three as one firm, with same for ITV and Channel 4. This would produce 28.6 (BBC) + 21.3 (ITV) + 9.2 (C4+E4) = 59.1% Reward as two marks.	2	Up to two marks.
	(b)		Fixed costs = costs which do not vary with output (1). Reference must be made to output, level of production. Passage – both licence bid of £2,500 and annual fee of £1,000 can be seen as fixed costs (1). Accept rental of small studio. Final mark for explanation of why these are fixed costs in the TV broadcasting industry (1).	3	Up to three marks. For third mark, explanation must go beyond the basic definition of fixed cost and relate specifically to output in terms of number of programmes, viewers, hours.

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Question			Answer	Marks	Guidance
	(c)		Possible reasons for declining trend as a percentage might include: Increased cost of advertising. Advertisers switching to other forms of media, eg Internet. TV advertising falls as % of total advertising expenditure. Increased reliance on subscription by providers such as Sky. Advertisers spending less during recession. Advertising slots cheaper due to more channels (increased competition) or recession. Subscription revenue increases faster than advertising revenue, therefore percentage falls. Loss of effectiveness of TV advertising – must be linked to decisions by firms to switch away from TV advertising Needs two reasons – two marks for each reason. One mark for state, second mark for explanation. The decline in the proportion of television revenue generated from advertising might be caused by the fact that new forms of media, such as the internet, have developed (1). The emergence of these new places to advertise might mean a reduction in the amount of advertising on television as advertisers switch to potentially cheaper and more effective outlets (1).	4	One mark for correct identification, up to a maximum of two identifications, plus a further one mark for each of the explanations. Question refers to broadcasting as a whole and not individual channels.

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Question			Answer	Marks	Guidance
	(d)		Regulation can take the form of: Reducing barriers to entry/exit. Maintaining or increasing standard of product. Regulating how product is sold. Consumer protection – impartiality Accept – correcting market failure **if the market failure is clearly identified**. This might include abuse of monopoly power, lack of information, under-consumption of merit goods, over-consumption of demerit goods. Protection of the viewer from harmful or offensive material. Accept any recognised impact of regulation. in the context of the TV broadcasting industry	3	One mark for each explanatory statement, up to a maximum of three such statements, but allow development. One form of regulation well developed can gain three marks.

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Question			Answer	Marks	Guidance
	(e)		Benefits might include: greater choice bringing in the idea of allocative efficiency/ increased consumer satisfaction/welfare The fact that greater competition is usually thought to reduce price and increase quality in a competitive market place. Scope for minority channels therefore provides for all sections of society. More contestable with low entry and exit costs. Why consumer may not benefit might include lower quality of programmes. Reliance on repeated programmes. Competition has no impact on price of viewing many channels as they are free once licence fee has been paid and therefore competition might have no impact on price or improving quality. An increase in the number of channels might benefit the consumer, as there is more potential choice of channels (1). This could be seen as increasing consumer welfare and creating a more allocatively efficient allocation of resources (1). On the other hand, there can be no guarantee that the quality of the material broadcast would be maintained (1) as many channels rely on repeated material and high levels of advertising rather than programme content (1). In conclusion, it could be argued that the ease of entry into the broadcasting market has been, very much, at the expense of quality and it has actually created an allocatively inefficient situation where consumers are faced with a great deal of choice but between a large number of channels producing low quality output (1).	5	Up to two marks for a one-sided analysis. Up to a further two marks for an analysis of the second side. Plus one mark for a reasonable judgement (based on the preceding analysis). Judgement mark can only be awarded if **both** sides have been analysed. On both sides the second mark can only be accessed if there is clear economic analysis. Benefit or lack of benefit must relate to more channels not more TV viewing eg obesity.

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Question			Answer	Marks	Guidance
	(f)		TV might be thought of as an oligopoly because of its high concentration ratio – a market dominated by a small number of producers/broadcasters. Entry into the market seems to be relatively easy but in trying to compete with the major channels the barriers become much larger. eg buying major sports events. The ability to earn abnormal profits seems to exist in the shape of subscription channels such as Sky. Candidates might discuss price rigidity and nature of the product which could be either homogenous or differentiated. On the other side, TV might be seen as either a monopoly, based on analysis of the BBC, or a monopolistic market. Candidates could legitimately point to the market share of the BBC with its three channels accounting for over 25% of market share. Also the fact that it is subsidised by the state and is free at the point of use for consumers. Alternatively candidates might analyse the market as monopolistic with many channels, ease of entry, some product differentiation. Also, that TV competes in a wider entertainment market which is growing all the time and providing even more competitors, eg on line activities. Another route would be to analyse the market as contestable with the focus on the ease of exit and entry, rather than the number of firms. Television broadcasting might be considered an oligopoly as a few major broadcasters dominate the market on a limited number of channels (1). The three firm concentration ratio for both broadcasters and channels is high at 45% by channel and 59% by broadcaster, which is typical of an oligopoly (1). There are also high barriers to some parts of the industry. For example, Sky TV has a strong hold on major sporting events and attempts to enter the market, by Setanta for example, have resulted in competitors having to leave the market (1).	8	Up to three marks for a one-sided analysis. Up to a further three marks for the analysis of the second side. Plus up to two marks for a reasoned judgement (based on the preceding analysis). No marks for simply stating the characteristics of oligopoly or for a response which makes no explicit reference to TV broadcasting. Judgement marks can only be awarded if **both** sides have been analysed.

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Question			Answer	Marks	Guidance
			However, it can be argued that there are much lower barriers to entry into the market indicated by the arrival of the 1000th channel (1). The costs involved in entering the market are relatively low at less than £4000 per year and therefore the sunk costs are low, suggesting a much more contestable market (1). With a focus on simply the number of firms, the market could be described as monopolistic as the barriers to entry are low, the product is slightly differentiated and there are a large number of firms (1). In conclusion, it could be argued that the market can be split into two sub-markets. BBC, ITV and Sky seem to operate in an oligopolistic market where the need to attract advertising – and the existence of public funding in the BBC's case – make it very difficult for new firms to enter the market (1). At the other end of the scale, minority channels, such as Revelation, with low entry costs and no real desire or need to maximise profit, can exist in monopolistic competition (1).		

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Question			Answer	Marks	Guidance	
					Content	Levels of response
2	(a)		The responsiveness of the supply of labour to a change in the wage rate is the elasticity of supply of labour and the factors which influence it are: **the qualifications and skills required,** - supply of skilled workers is more inelastic than that of unskilled. **length of training** - the longer the training period the more inelastic **the immobility of labour both geographical and occupational** - the greater the level of mobility the more elastic the supply. **the time period** - inelastic in the short term and more elastic in the long term. **Vocational aspects** - changes in wages do not have an impact in some occupations as people are not motivated by wages. **Level of unemployment in the economy** - high levels of unemployment are usually associated with an elastic supply of labour especially to lower skilled jobs. Must be related to occupations, as in question, and not a simple macroeconomic argument. Candidates are expected to state and explain the factors and use them to explain why, **when wages change**, the reaction may be either responsive or non responsive.	15	Be careful **not** to credit any material based on factors affecting the supply of labour. Answers must be related to the elasticity of supply of labour how the supply of labour responds to a change in the wage.	**Level 3 (9-15 marks)** Analysis which focuses on the factors which influence elasticity, if focus is on only one of these factors then max 12. 9-10 – basic analysis of one factor. 11-12 – good analysis of one factor or basic analysis of two factors. 13-15 – good analysis of two or more factors with width and depth. **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes assertions about the factors affecting elasticity of supply of labour without going on to provide any analysis. If appropriate examples are given then award at least 6 marks. **Level 1 (1-4 marks)** Knowledge and understanding of what elasticity of supply is.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		Candidates may take their starting point from a positive or negative impact on labour markets. The supply of labour is influenced by the emigration and immigration of economically active people. Migration needs to analyse both net emigration and net immigration. Both aspects should be considered and analysis might include: Overcoming skill shortages/countries losing workers might suffer skill shortages. Reducing/increasing the dependency ratio. Impact on government tax revenue/impact on government spending (must be related to labour markets). Helping the economy to expand without encountering inflationary pressure/ reducing the quantity and quality of labour May disadvantage low paid workers when immigrants are prepared to work for lower wages. Downward pressure on wages/Reward mobile labour. Pressure on services such as housing, health care and education. Especially if immigrants bring families and are concentrated in particular regions/problems of depopulation and areas losing skilled income earners – negative multiplier effect. (Must be related to labour markets eg labour mobility.)	20	Only emigration or immigration = bottom of band.	**Level 4(a) (16-20 marks)** Discussion which includes a judgement of the extent to which migration has a positive or negative impact on labour markets. 18-20 – balanced discussion with good judgement 16-17 – weak judgement **Level 4(b) (11-15 marks)** For a balanced discussion of the extent to which migration impacts labour markets. A discussion lacking balance should receive no more than 13. 13-15 – balanced two sided discussion with relevant economic analysis of both sides 11-12 – basic discussion which is predominantly one-sided Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
						Level 3 (5-10 marks) Analysis of how migration will have a positive or negative impact on labour markets. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4 marks)** Application of knowledge and understanding of how migration might impact on labour markets. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive. **Level 1 (1-2 marks)** Knowledge of migration and/or labour markets. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
3	(a)		The meaning of income inequality should be explained in terms of an unequal distribution of income within an economy, eg the gap or difference between low income and high income. Application might be made by comparing different types of economy and different countries. Candidates who do **not** go beyond an explanation and do **not** analyse measurement will be limited to Level 2. Measuring changes in inequality can be dealt with in a number of ways with analysis of only one being required for Level 3. Ways might include the use of Lorenz curves and Gini coefficients with candidates using diagrams and formulas to show how this information helps to measure income inequality. Diagrams must be substantially correct and for Level 3 candidates must be able to interpret the meaning of a Gini coefficient value if they have chosen that route. The nearer to 1 the more unequal the distribution of income. Another approach is to focus on percentiles and then use the information to compare income groups. Again candidates must be clear and precise in their analysis in order to achieve Level 3.	15	Question is specifically about INCOME equality. Question refers to CHANGES. Analysis must involve how changes are measured – for instance how the Lorenz curve or Gini coefficient would show this. Accept comparison between countries/different economies as a method of demonstrating change. Lorenz curve axis should be cumulative but allow % of income and % of population. i.e. predominantly correct. 13 -15 range applies to answers with correct diagrams/formulas and analyses change	**Level 3 (9-15 marks)** Analysis which focuses on both the meaning of income inequality and how it is measured. 9-10 – basic analysis of one feature. 11-12 – good analysis of one feature or basic analysis of two features. 13-15 – good analysis of two or more features with width and depth. **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes broad assertions about what the inequality of income is and how it is measured. **Level 1 (1-4 marks)** Knowledge and understanding of income inequality and/or a measure.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		Reform of the tax and benefit system might include analysis of; Making the income tax system **more** progressive and therefore increasing the % of income paid in tax by higher income groups. This could be achieved by widening the bands and/or increasing the higher rates of tax. Also at the lower end the tax free personal allowance could be increased and the lowest rate reduced or a new lower band reintroduced (used to be 10% for a short period). The impact would hopefully reduce income inequality post tax and benefits. Alongside this benefits could be increased in real terms and directed to low income groups with more efficiency. Examples might include increasing the old age pension and unemployment benefits. Candidates might cover the argument that more benefits could be means tested rather than universal. The impact would hopefully reduce income equality post tax and benefits. Candidates might then go on to the problems associated with reform and the suitability of alternatives.	20	The question specifies income but taxes on wealth could be considered as inequality of wealth is a cause of income inequality. This analytical point should be made to make such taxes relevant analysis.	**Level 4(a) (16-20 marks)** Discussion which includes a judgement of the extent to which reform of the tax and benefit system alone can reduce the level of inequality. 18-20 – balanced discussion with good judgement 16-17 – weak judgement **Level 4(b) (11-15 marks)** For a balanced discussion of the extent to which the reform of tax and benefits system alone can reduce level of inequality. At this stage alternatives might be introduced and analysed. 13-15 – balanced two sided discussion with relevant economic analysis of both sides 11-12 – basic discussion which is predominantly one-sided A discussion lacking balance should receive no more than 13. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			However, problems with reform might include the loss of revenue for the government, disincentive effects on working, the creation of a benefits culture and the problems associated with means testing. Several alternatives to reform of the tax and benefit systems exist and candidates might analyse one or more of these alternatives. Policies to reduce the inequality of wealth. Introduction of/increase in a national minimum wage. Information provision linked to take up and provision of private pension schemes. Supply side policies such as education and training aimed at providing transferable skills and mobility in order to reduce chances of unemployment. Accept any appropriate analysis.			**Level 3 (5-10 marks)** Analysis of how the reform of tax and benefit system or an alternative method might reduce level of income inequality. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4 marks)** Application of knowledge and understanding of how the reform of tax and benefit system could reduce income inequality. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive. **Level 1 (1-2 marks)** Knowledge of the tax and benefit system and/or income inequality. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
4	(a)		Skill shortages occur when firms have difficulties recruiting people with appropriate skills. Labour market failure is associated with a lack of allocative and productive efficiency in the labour market. Skill shortages create market failure in that firms are either unable to produce through lack of skills or the wage of the scarce skill is bid up leading to an increase in costs and, ultimately, leading to a lack of competitiveness in both the domestic and international market. Labour market failure occurs when market forces do not result in an efficient allocation of resources. Skill shortages may result in workers being in jobs they are not suited to. Productivity might be adversely affected and job vacancies may remain unfilled therefore generating inefficiencies. A lack of skill was cause occupational immobility with the associated inefficiencies.	15	Do not reward answers offering solutions to labour market failure.	**Level 3 (9-15 marks)** Analysis of how skill shortages cause market failure. 9-10 – basic analysis of one reason. 11-12 – good analysis of one reason or basic analysis of two reasons. 13-15 – good analysis of two or more reasons with width and depth. **Level 2 (5-8 marks)** Application of knowledge. In this case an answer which makes broad assertions about skill shortages and how they cause market failure. **Level 1 (1-4 marks)** Knowledge and understanding of skill shortages and/or market failure.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		EU directives are instructions to member countries to achieve particular outcomes. They usually allow countries some flexibility in terms of national laws. Candidates might give examples of the Working Time Directive, the Parental Leave Directive and Equal Treatment Directive. The analysis of the beneficial effect should lead candidates into the protection of workers rights and the correction of some forms of market failure, for instance, discrimination. Candidates might also point out that the flexibility allowed to countries is a positive point and might recognise that the UK has opted out in the past on various issues. A level playing field across the EU could be argued to encourage mobility and flexibility thus helping to fill any skill shortages and provide a greater potential supply of labour. Changes to elasticity of supply might also be considered. Candidates **must** focus on the impact on the labour market and might sensibly focus on the impact on labour market failure and flexibility. Also, an approach which considers the effect on earnings and employment is relevant and candidates might produce arguments on migration which are relevant, if related to the labour market rather than the whole economy.	20		**Level 4(a) (16-20 marks)** Discussion which includes a judgement of the extent to which EU directives might impact the labour market. 18-20 – balanced discussion with good judgement 16-17 – weak judgement **Level 4(b) (11-15 marks)** For a balanced discussion of the extent to which EU directives might impact the labour market. 13-15 – balanced two sided discussion with relevant economic analysis of both sides 11-12 – basic discussion which is predominantly one-sided A discussion lacking balance should receive no more than 13. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			However there are aspects which are not a benefit. It is argued that excessive protection for those in work may depress economic growth and job creation by increasing the cost of labour and even reduce the desire of firms to employ new labour. Again candidates **must** focus on the impact on the labour market and might sensibly focus on the impact on labour market failure and flexibility. The negative impacts of migration might be considered but **must** focus on the labour market. Discussion could also introduce the power of trade unions and the willingness or ability of governments to fully implement EU directives. The desire to create national flexibility in operation could lead to the lack of a level playing field and, hence, market failure. This could be seen as government failure. Candidates might broaden the arguments to include the freedom of movement of labour within the EU as part of economic integration – credit this approach **if relevant** to labour markets. The Social Charter/Chapter made agreements on social provisions including a minimum wage, equal pay for male and female workers and minimum standards for health and safety. Credit analysis of these areas eg. minimum wage. Better answers will link analysis to the Social Charter/chapter.			**Level 3 (5-10 marks)** Analysis of how EU directives might have a beneficial impact on the labour market. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4 marks)** Application of knowledge and understanding of EU directives on the UK labour market. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive. **Level 1 (1-2 marks)** Knowledge of EU directives and the labour market. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

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OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

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RECOGNISING ACHIEVEMENT

Monday 23 January 2012 – Afternoon

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be assessed on the quality of your written communication in Section B.
- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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2

The UK labour market – fair, flexible or failing?

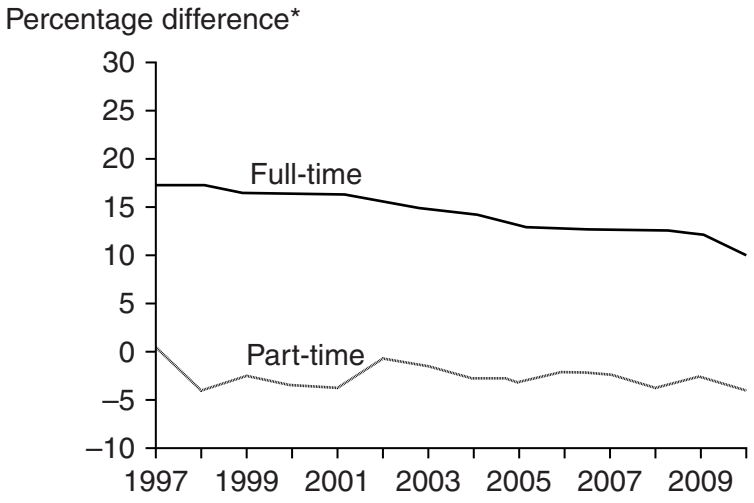
Many economists have argued that one of the UK's greatest economic strengths is that, in comparison to some other economies, it has a very flexible labour market. However, there are others who claim that the labour market in the UK still fails in certain aspects of its operation.

Despite legislation starting with the Equal Pay Act of 1976, men, on average, are still paid more than women as shown by the existence of the gender pay gap. Certain groups within society suffer from high rates of unemployment or the prospect of low paid employment. As is often the case, any attempts by the government to find effective solutions can themselves create a new set of economic problems. *5*

Fig. 1 Average gross hourly earnings and gender composition of UK workforce in 2010

2010	Average gross hourly earnings (£ per hour)		Workforce composition (%)	
	Full-Time	Part-Time	Full-Time	Part-Time
Men	13.01	7.69	88.3	11.7
Women	11.68	8.00	57.7	42.3
All	12.50	7.97	73.2	26.8

Fig. 2 The gender pay gap – the percentage difference in average hourly earnings between men and women in full-time and part-time work



* The percentage difference refers to

$$\frac{\text{average gross hourly earnings of men} - \text{average gross hourly earnings of women}}{\text{average gross hourly earnings of women}} \times 100.$$

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A regional minimum wage – the logical next step?

In 2007 the Labour government was thought to be drawing up plans to vary the minimum wage region by region across Britain.

The minimum wage, one of New Labour's flagship economic measures, would have been increased for employees in London and the southeast, where living costs – particularly housing – are higher. However, any move for cuts in the level of the minimum wage in other parts of the country would be strongly opposed by trade unions.

A senior Labour party source said that a 'regional minimum wage' was the 'logical next step'. In 2006 Gordon Brown declared that: 'Britain will have to become a more flexible economy – more ready to change, with more local and regional pay flexibility, better equipped for the long term, and with more focus on the jobs and skills of the future'.

Young workers – failed by the market?

Youth unemployment in the UK is at a record high, with nearly a million 16 to 24-year olds out of work. This represents just over 20% of that age group. Around 600,000 of 16 to 24-year olds have never worked at all.

Youth unemployment is particularly worrying. If young people cannot get a job and learn work skills, and the basic habits of work, it has a very adverse impact on their whole lives. Instead of learning about life in work, they are learning about life on benefits.

Youth unemployment – and the same is true of immigrants and other minority groups – usually increases when economic growth slumps. Employers keep core workers, whilst reducing the total number of people employed. The fact is that young people are just not worth as much to employers as older workers. They may have no marketable skills and will have little or no experience of how workplaces operate.

It is time to scrap the minimum wage for young people. It just prices them out of jobs, so it does them no good at all. For young people, low-paid work is a way of building up some human capital which will make it easier to find a better job.

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Section A

Answer **all** questions from this section.

1 **(a)** What is meant by the term 'earnings'?

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..... **[2]**

(b) Using Fig. 1:

(i) identify the differences between the hourly earnings of men and women.

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..... **[2]**

(ii) describe the gender composition of the UK workforce.

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..... **[2]**

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(c) State and explain **two** possible causes of the changes in the pay gap between men and women during the period 1997 to 2010, as shown in Fig. 2.

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2. .....

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(d) Comment on the possible economic effects of a **regional** minimum wage.

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..... **[5]**

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(e) Discuss whether providing education and training is the best method of reducing youth unemployment.

.... **[8]**

Section A Total: [25 marks]

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Section B

Answer **one** question from this section.

2 **(a)** Analyse the impact of **two** forms of bargaining on the operation of the labour market. **[15]**

(b) Evaluate the extent to which bargaining alone determines wages. **[20]**

3 **(a)** Analyse, using diagrams, the difference between the short run and long run equilibrium of a firm in monopolistic competition. **[15]**

(b) Discuss, using a leisure industry of your choice, the extent to which it is monopolistically competitive. **[20]**

4 **(a)** Analyse the impact of an ageing population on both the labour market and the economy as a whole. **[15]**

(b) Discuss the extent to which reform of the state pension system is the best solution to the problems caused by an ageing population. **[20]**

Section B Total: [35 marks]

Paper Total: [60 marks]

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Section B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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Additional answer space. Any answers written in this space must be clearly numbered.

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GCE

Economics

Advanced GCE

Unit **F583:** Economics of Work and Leisure

Mark Scheme for January 2012

Oxford Cambridge and RSA Examinations

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Annotations

Annotation	Meaning
	Unclear
	Benefit of the doubt
	Incorrect point
	Effective evaluation
	Irrelevant
	Level one
	Level two
	Level three
	Level four
	Not answered question
	Noted, but no credit given
	Too vague
	Tick
	Development of point

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Question			Answer	Marks	Guidance
1	(a)		Earnings are made up of wages (1) PLUS overtime bonuses/commission (1). Accept any one for the second mark	2	Up to two marks. Accept alternatives for wages eg income, salary, money.
	(b)	(i)	**Full-time** – men have **higher** hourly earnings than women. Fig. 1 – £13.01 to £11.68 or £1.33 more or some correct ref (1). **Part-time** – women have **higher** hourly earnings than men. Fig. 1 £8 to £7.69 or 31p more or some correct ref (1).	2	Must be comparative – eg HIGHER. No ref to or use of figures – one mark. Both full time and part time must be referred to in order to gain full marks.
		(ii)	**Higher %** of men in full time work – 88.3% to 57.7%. (30.6% more) **Higher %** of women in part time – 42.3% to 11.7%. (30.6% more). **Higher %** of men are full time compared to part time 88.3% to 11.7% Whereas women much more evenly spread between full time (57.7% and part time 42.3%) but still **higher** in full time One mark available for each point up to max of two.	2	Must be comparative and use rate,%. Be careful with use of amount/number No ref to figures – one mark.
	(c)		**FT – narrowing of the gap/women closing gap.** Explanation might include; • Reduction in sex discrimination by employers, • Shift in culture of women towards careers and training, • More women participating in work force and staying in full time work. Credit any sound, relevant and appropriate argument. **PT – women have continued to earn more than men. Stayed constant over the period.** Explanation might include; • Women still more likely to be in part-time work than men, therefore, many well qualified and trained females in part-time work – employed at a relatively high level of average earnings. • Well qualified women returning to work on a pt basis after career breaks. Credit any sound, relevant and appropriate argument.	6	Must focus on the BEHAVIOUR of the gap rather than the gap itself, ie why the gender gap has narrowed rather than why men earn more than women (in case of full-time workers). **Either** One mark for each correct reason identified, plus up to two marks for application. **Or** One mark for each correct reason, plus one mark for each explanation and one for each application. Up to three marks for each possible cause. Full marks can be obtained by dealing **only** with full time or **only** with part time.

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Question			Answer	Marks	Guidance
	(d)		Analysis of how a Regional Minimum Wage (RMW) would have beneficial economic effects **OR** not be beneficial (max two marks). Arguments for a RMW being of benefit might include; • Regions with high unemployment set a low RMW which would then allow more people, including young people, to be employed. • Help with labour shortages in low skilled work in some geographical areas. • Reduce employment costs for existing firms. • Firms might be attracted to an area of high unemployment by lower wage costs, therefore, creating employment opportunities. • Positive impact on low pay/poverty **in a region**. Arguments that a RMW would not be of benefit might include; • Young workers might leave high unemployment areas because they are attracted by relatively high wages in other areas. • Creation of local negative multiplier effect. • Create poverty in already high unemployment areas. • Reducing RMW in a region might not create significant increases in employment if D for labour is inelastic – simply reduce income in the region. Evaluation might include: Argument relies on geographical mobility which may or may not exist. Would low income workers move to, say, the South East for wages only slightly above the National Minimum Wage? • Depends on how big the differentials between Regional and National MW would be. • Might create problems of lowering incomes/poverty – knock on problems for state (central and local) and individual. • Unlikely to work in recession – demand for low income workers may not be present. • Effect of the increase costs of production in prosperous regions.	5	If all one sided, including analysis and evaluation – max three marks. No convincing reference to the REGIONAL aspect and focus on a national minimum wage should receive no marks. One sided = 2 Two sided =4 One mark for evaluation

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Question			Answer	Marks	Guidance
	(e)		The evidence in the article on youth unemployment is that youth unemployment is at a high level and unemployment among young people is creating a negative cycle of lack of experience, leading to a lack of opportunity and creating a cumulative effect. The lack of marketable skills is identified as a major problem and, hence, education and training might be seen as vital to reducing youth unemployment. However education and training may not be effective. • The type of education and training may be inappropriate and not address the issue of experience of how workplaces operate. • The costs of providing education and training – who should provide education? Opportunity cost. • Demand for labour must be present. Education and training of no impact if demand does not exist. • consideration of an alternative policy such as differential National Minimum Wage for young people, subsidies to employers to employ young workers.	8	Candidates who provide a single sided approach and offer a judgement can score a max of four marks. Advantages **or** disadvantages of analysis of education and training as a policy to solve youth unemployment. One sided plus evaluation = 3+1. Up to three marks – for analysis of other side. Two sided analysis of education and training = 6 Two marks for clearly evaluated judgement. Two sided with good judgement 6+2=8 Points must focus on youth unemployment and not unemployment in general.

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Question			Answer	Marks	Guidance
2	(a)		The most likely forms of bargaining to be identified are • Collective bargaining on a national basis. • Collective bargaining on a multi-employer basis usually on industry wide agreements. • Local level, single employer bargaining – at company level or even lower. • Performance related pay agreements. If both collective types are used as the two types, then a clear distinction must be made throughout the answer. Two distinct types of bargaining should be clearly understood in terms of how each of them operates. Application should relate to examples of instances or of countries in which the different types of bargaining have been used. Candidates might also apply bargaining to different situations in which each method of bargaining might be used. Analysis must focus on the IMPACT of the type of bargaining. Aspects considered might include: • Wages. • Supply curve for labour • Employment. • The fact that employment might depend on the structure of the market in which the firm operates – in perfect and monopolistic cases it is argued that employment falls as opposed to what might happen when faced with a monopsonist • Productivity bargaining might shift the MRP/D curve for labour and counteract the negative employment effects. • Flexibility of labour flexibility.	15	**Level 3 (9–15 marks)** The analysis with a focus on the IMPACT of the types of bargaining Only one type of bargaining with analysis of impact – max nine marks. 10–12 marks – two types of bargaining with good analysis of one impact or two analysed at a basic level. 13–15 marks. Two types of bargaining with good analysis of two impacts. Quality of analysis on IMPACT will determine achievement of 13/14/15 marks. **Level 2 (5–8 marks)** Application of knowledge. In this case an answer which lacks analysis but still manages to go beyond basic definition by considering real world applications or is able to identify different countries, industries or firms where different bargaining systems are used. An answer which does not go beyond Level 2 should achieve eight marks if valid application is made to the real world and two distinct types are considered.

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Question			Answer	Marks	Guidance
			Diagrams could be used in several cases. Well explained, appropriate and substantially correct diagrams would qualify as good analysis, as would prose or numerical analysis using tool box concepts in a relevant and detailed manner. The important point is to ensure that basic assertion is explained and qualified, thus becoming analysis.		**Level 1 (1–4 marks)** Knowledge and understanding of types of bargaining.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		Candidates who show basic knowledge of how wages are determined and are able to apply some basic ideas about bargaining power leading to greater wages will reach the top of Level 2. Analysis of bargaining might be based on a monopsonist employer. In examining how a monopsonist employer behaves the emphasis should be on the bargaining power of the employer and using this power to depress wages and the level of employment compared to a free labour market. Expect to see standard diagrams – these must be not only presented in a substantially correct form, but must also be explained to qualify as analysis. Analysis without diagrams should make frequent use of ideas and concepts from the economic toolbox. The above analysis assumes that the monopsonist is not faced by an organised labour market. An alternative scenario is to focus on an organised labour force where a trade union has power in the bargaining process and therefore has a significant impact on wage determination. Expect diagrams and analysis. This may lead on to bilateral monopoly analysis. Again, expect to see diagrams and credit those which are substantially correct and clearly explained.	20	To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores up to a maximum Level 2 mark. 11–12 marks for a predominantly one sided discussion underpinned by relevant economic analysis. 13–15 marks for a two sided discussion with relevant economic analysis on both sides. 16–17 marks for a two sided discussion underpinned by economic analysis with a weak judgement provided. 18–20 Better judgement will show an ability to weight the arguments presented and will include justification of why the judgement is made. Two justified judgement can produce full marks.	**Level 4(a) (16–20 marks)** For a discussion which includes a judgement of the extent to which wages are determined by bargaining alone. **Level 4(b) (11–15 marks)** For a balanced discussion of the various influences on wage determination. *Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.* **Level 3 (5–10 marks)** For an analysis of how bargaining **or** other factors has an effect on wages. *Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.*

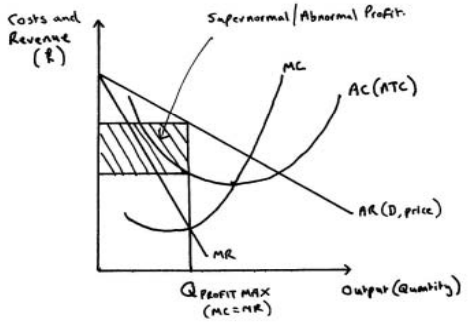
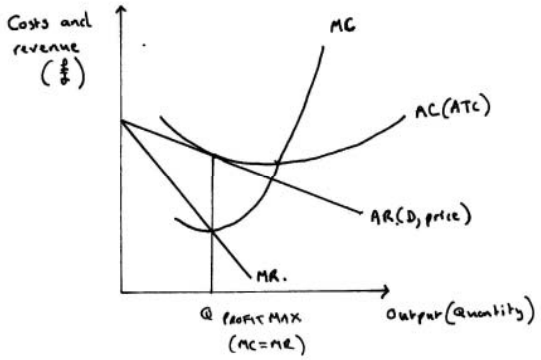
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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Other influences might be considered – such as the fact that the monopsonist employer may be a public sector employer. Discussion might also turn to the factors which influence the degree of power held by a trade union and other factors influencing the employer's bargaining strength. In looking to non bargaining theories of wage determination candidates will not be expected to produce more than one. This might include a market approach based on supply and demand for labour incorporating the MRP and/or wages being imposed by the state eg the NMW in the case of low paid workers. Accept any relevant and well analysed theory of wage determination.			**Level 2 (3–4 marks)** For an application of knowledge and understanding of how bargaining or other factors might determine wages. *Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.* **Level 1 (1–2 marks)** For knowledge of either wage determination or what is meant by a bargaining. *Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.*

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Question			Answer	Marks	Guidance	
					Content	Levels of response
3	(a)		A clear run through the essential characteristics of monopolistic competition with a focus on the fact that there is **product differentiation** and, therefore, each firm is faced with a downward sloping demand curve. Other characteristics will be identified such as: • Large number of firms but…. • No dominant firm • Low/no barriers to entry./exit Definitions of short run and long run are also appropriate. SR – at least one fixed factor of production. LR – all factors variable. Examples from the real world might be applied at this stage or later. The standard assumption of profit maximisation should then lead on to the conclusion that, in the short term, supernormal profits will be earned as the existence of a differentiated product will allow the individual firm power over price setting. This should be supported by the appropriate diagram.	15		**Level 3 (9–15 marks)** Analysis, using diagrams, with a focus on DIFFERENCES in profit, output, price, changing elasticity of demand, entry into market and changes in efficiencies. **9–10** Two substantially correct diagrams with explanation. **11–12** Two substantially correct diagrams at least with explanation. Good analysis of one difference or basic analysis of two. **13–15** One correct and one substantially correct diagrams and good analysis of two more differences Some candidates may explain both short run and long run on one diagram. This is acceptable but care must be taken to ensure that both equilibriums are correct and that the level of profit etc has been explained. Axis preferred cost/rev and output Accepted p, q, £, **Level 2 (5–8 marks)** Application of knowledge.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			 Analysis should move onto the long term. Here the signals sent out by the supernormal profits will attract new firms into the market. Reference should be made to relative freedom of entry. As a result, the supernormal profits will be competed away to the point where only normal profits can be earned. Again, this should be supported by the appropriate diagram. 			In this case an answer which manages to go beyond basic definition by consideration of short term and long term and/or applies to examples (not necessarily taken from leisure industries). Level 2 – one substantially correct diagram with explanation and one incorrect diagram therefore unable to analyse differences Two incorrect diagrams with good application Max 6 An answer which does not go beyond Level 2 could achieve a maximum of eight if valid application is made to the real world – not necessarily leisure. **Level 1 (1–4 marks)** Knowledge and understanding of the characteristics of the firm in monopolistic comp. One or two incorrect diagrams with no explanation

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			The focus on both diagrams is likely to be on the profit maximising level of OUTPUT and identifying the level of profit. Better answers will analyse; • Price, as determined by the AR curve. • The D(AR) curve itself becoming more elastic. • Output in terms of both allocative and productive efficiency. The key to the question is to analyse the DIFFERENCE. As a result Level 3 should be awarded to candidates who not only analyse the short run and long run but actively look at differences.			

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		Candidates who run through material from part (a) in defining monopolistic structure and then introduce a leisure industry of their choice will move quickly through Levels 1 and 2. Analysis should be focussed on the way in which the industry chosen performs in comparison to the theoretical model including; • barriers to entry/exit • the level of differentiation of the product • the ability to earn supernormal profits in both the short run and long run. • Distinction between short run and long run behaviour. • The number of firms in the industry which might involve the introduction of concentration ratios. A good answer at Level 3 will deal with the majority of the points above and analyse the chosen industry to the extent to which it fits the monopolistic structure. Reference back to or repetition of diagrams from part (a) is relevant analysis, as long as the candidate explains the diagram with some reference to the chosen industry.	20	To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum Level 2 mark. 11–12 marks for a predominantly one sided discussion underpinned by relevant economic analysis. 13–15 marks for a two sided discussion with relevant economic analysis on both sides. 16–17 marks for a two sided discussion underpinned by economic analysis with a weak judgement provided. 18–20 Better judgement will show an ability to weight the arguments presented and will include justification of why the judgement is made. Two justified judgements can produce full marks	**Level 4(a) (16–20 marks)** Discussion which includes a judgement of the extent to which the chosen market is monopolistic. **18–20** – balanced discussion with good judgement. **16–17** – balanced discussion ,weak judgement **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which the chosen market is monopolistic. A discussion lacking balance should receive no more than 12. *Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.* **Level 3 (5–10 marks)** Analysis of why a chosen market is monopolistic OR not monopolistic. For 8+ analysis must be related to a <u>leisure</u> industry.

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
			The candidate might then go on to question whether the chosen industry is monopolistic and suggest aspects in which it might be considered not monopolistic but perfectly competitive, oligopolistic or monopoly. Also, accept the fact that the market may have the same level of contestability as you would expect in a monopolistic market. Again, the focus should be on the major aspects of market structure and good analysis would see plenty of use of terms from the economic tool box. Candidates might also argue in terms of behaviour which is an acceptable addition, but not a substitute for consideration of how well the real world structure fits the theoretical model.			*Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.* **Level 2 (3–4 marks)** Application of knowledge and understanding of how an industry may or may not be monopolistic. *Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.* **Level 1 (1–2 marks)** Knowledge of structure of monopolistic competition. *Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.*

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Question			Answer	Marks	Guidance
4	(a)		Ageing population – an increase in the average age of the population. An increasing % of the population in older age groups. Falling birth rate and death rate, women having fewer children and people living longer. Expect to see these as explanations – do **not** credit the statement that people are getting older! Impacts might include; Arguments about skills updating, geographical and occupational mobility, adaptability/flexibility, MRP, LABOUR MARKET **Do not credit the argument that an ageing population necessarily causes a reduction in the labour force/supply.** Change in dependency ratio and consequences of that. The demographic time bomb, including tax base implications. Impact of pensioners on government finances.– health care, community care and pensions. ECONOMY AS A WHOLE.	15	**Level 3 (9–15 marks)** Analysis which focuses on the effect of an ageing population on both the labour market and the whole economy. Answers which analyse on the basis that impact might be mixed or totally positive or negative are equally acceptable. **9–10** analysis of impact on either labour market or whole economy. **11–12** Impact on one side eg labour market or economy with good analysis. The other, basic analysis. **13–15** Good analysis of impact on both lab mkt and economy as a whole. **Level 2 (5–8 marks)** Application of knowledge. In this case an answer which makes assertions about the impact of an ageing population without going on to provide detailed analysis of why an ageing population causes problems or benefits. If focus is only on labour markets or whole economy then a maximum of six marks can be obtained. **Level 1 (1–4 marks)** Knowledge and understanding of what an ageing population is.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		Knowledge of state pension is to be expected plus an idea of reform in the shape of an increase in the age at which the state pension becomes payable, a change in qualifying years, more targeted approach rather than a universal payment, influencing the real value of the pension….. These might then be applied by assertion rather than explanation to reach Level 2. Candidates who analyse how reform will alleviate the problem using economic analysis with ideas and concepts from the economics tool box, will be in Level 3. Analysis is likely to revolve around the impact on the whole economy and this can gain top of Level 3. Discussion and analysis should then revolve around alternatives which might include; • Problems with reform of state pension. • Alternative solutions for an ageing population. • Switch to private pensions. • Increase savings ratio by tax system • Increase in retirement age (if not included in earlier reform)	20	To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum Level 2 mark. 11–12 marks for a predominantly one sided discussion underpinned by relevant economic analysis. 13–15 marks for a two sided discussion with relevant economic analysis on both sides. 16–17 marks for a two sided discussion underpinned by economic analysis with a weak judgement provided. 18–20 Better judgement will show ability to weight the arguments presented and will include justification of why the judgement is made. Two justified judgement can sided discussion.	**Level 4(a) (16–20 marks)** Discussion which includes a judgement of the extent to which reform of state pension is the solution to an ageing population. **Level 4(b) (11–15 marks)** For a balanced discussion of the extent to which reform of the state pension is the solution. A discussion lacking balance should receive no more than 12. *Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.* **Level 3 (5–10 marks)** Analysis of why reform of state pension might or might not solve the problem of ageing population. *Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.*

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• Information provision about private pensions. • **Consider any well argued potential policy which deals with the problems arising from an ageing population.** **An alternative approach** is to accept a very broad view of state pension reform which might include policies included in the alternatives above. Candidates who adopt a two sided approach pointing out the advantages and disadvantages of the reform policy in relation to the problems of an ageing population can achieve Level 4 and full marks. **Do not credit arguments that an ageing population necessarily causes a reduction in the labour force/supply.**			**Level 2 (3–4 marks)** Application of knowledge and understanding of how reform of state pension might work. *Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.* **Level 1 (1–2 marks)** Knowledge of state pension and/or potential reforms. *Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.*

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RECOGNISING ACHIEVEMENT

ADVANCED GCE

ECONOMICS

Economics of Work and Leisure

F583

Candidates answer on the question paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Friday 17 June 2011
Afternoon

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- This document consists of **20** pages. Any blank pages are indicated.
- You will be assessed on the quality of your written communication in Section B.

A calculator may be used for this paper

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2

Premier League revenues near £2bn

Football is by far the most popular spectator sport in the UK. The Premier League is the top division of English football. It is made up of 20 teams. Another 72 clubs make up the Football League, the remainder of competitors in the top flight, spread across three divisions, the first of which is known as the Championship. This makes a total of 92 clubs.

The Premier League saw its revenues soar by 26% in the 2007/08 season to nearly £2bn. This strong revenue growth even outstripped the significant wage growth.

Despite the downturn, 11 of the 20 Premier League clubs made an operating profit in 2007/08, up from eight a year before. But Premier League wage costs topped £1bn for the first time, and the clubs' total net debt was £3.1bn.

Soaring wages

Wages paid by Premier League clubs grew by 23% in 2007/08. The wages paid by five clubs accounted for 47% of the total. In contrast, wages paid by the 24 Championship clubs rose by £32m to £291m.

Premier League clubs increased commercial revenues (e.g. television and sponsorship) to £447m, up by 12%; whereas ticket sales grew more modestly, by 3%, to £554m. Meanwhile, total revenues in the Championship increased by 2% to £226m in 2007/08. The total revenues of the 72 Football League clubs exceeded £500m for the first time.

In the same season total investment in stadiums and facilities across all the 92 clubs was £187m.

At the same time many Premier League clubs were heavily in debt. Two-thirds of the debt was carried by the big four clubs of Arsenal, Chelsea, Liverpool and Manchester United.

Despite revenue growth, improved profitability has remained elusive. For some owners, Premier League clubs represent a hobby; with the potential to deliver a long term return, but at best break even annually.

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Section A

Answer **all** questions from this section

1 **(a)** Distinguish between normal and abnormal profit.

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..... **[2]**

(b) **(i)** Compare the change in wage costs in the Premiership with the change in wage costs in the championship in the 2007/2008 season [lines 10–12].

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..... **[2]**

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(ii) State and explain **two** theoretical reasons why wage costs may change.

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..... **[6]**

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(c) Using information from the case study, comment on the extent to which football clubs would appear to be firms which are seeking to maximise profit.

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.... **[5]**

(d) **(i)** State **two** characteristics of monopolistic competition.

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.... **[2]**

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(ii) Discuss the extent to which the structure of English football may be considered to be close to the model of monopolistic competition.

.... **[8]**

Section A Total: [25 marks]

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Section B

Answer **one** question from this section

2 **(a)** Analyse how changes in productivity levels impact on unit labour costs. **[15]**

(b) Discuss how important improvements in labour productivity are to the international competitiveness of a firm. **[20]**

3 **(a)** Analyse the choice between work and leisure for the individual worker in the short run. **[15]**

(b) Discuss the extent to which non-pecuniary benefits may affect the supply of labour to various occupations. **[20]**

4 **(a)** Analyse the causes and consequences of **two** types of labour market failure. **[15]**

(b) Discuss the extent to which labour market failure has wider economic effects. **[20]**

Section B Total: [35 marks]

Paper Total: [60 marks]

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Section B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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Additional answer space. Any answers written in this space must be clearly numbered.

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RECOGNISING ACHIEVEMENT

GCE

Economics

Advanced GCE

Unit **F583:** Economics of Work and Leisure

Mark Scheme for June 2011

Oxford Cambridge and RSA Examinations

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Question			Expected Answer	Mark	Rationale/Additional Guidance
1	(a)		**Distinguish between normal and abnormal profit.** Two marks for a clear distinction between the two, e.g. the level of profit required to keep a firm in the market in the long run. (1) Abnormal profit is a payment over and above normal profit. (1) Maximum one mark for an answer with less precision, e.g. a statement AC=AR with AR>AC would gain only one mark in total.	[2]	Correct definition of normal profit with statement such as AR>AC or TR>TC for abnormal profit, two marks.
	(b)	(i)	**Compare the change in wage costs in the Premiership with that of the Championship clubs.** Championship wage costs increased by 12.4% (1) ie £32m/259 x 100 (1). Accept answers between 10% and 15%. Premiership wage costs by 23% almost twice as much. (1)	[2]	Second mark for the recognition that Premiership wage costs rose by more than Championship wage costs.
		(ii)	**State and explain two reasons why wage costs may change.** Wage costs are the total wages paid by a firm for the hire of labour, and are calculated by multiplying the number of workers by the average wage rate. Accept two approaches: firstly, candidates who recognise the above relationship and state that wage costs will change when either average wage rates change or the number of workers employed changes. For six marks there must be a recognition that, for instance, an increase in wage rates will only increase wage costs if employment does not fall by a greater percentage than wage rates rise (the elasticity relationship); Secondly, candidates may use a demand and supply approach, so a change in the demand for labour will put upward or downward pressure on labour costs. (1) Up to two further marks can be awarded for quality of explanation, e.g. an increase in the mrp of labour will shift the demand curve to the right and consequently raise the level of wages.(2) Equally a change in supply of labour will lead to an increase or decrease in the cost of labour. (1)	[6]	If a response offers two demand or two supply influences then award a maximum of four marks. Candidates who use first approach do not need to refer to elasticity explicitly. Do not reward explanations of why wage differentials exist/why wages are different for different groups, rather than why the wage costs of a firm may change. Note that answers do not have to be in the context of the case study and should refer to why wage costs for any firm may change.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Up to two further marks can be awarded for quality of explanation, e.g. an increase in the supply of labour factors in a particular market, perhaps due to inward migration should reduce pressure in that market and consequently reduce wage cost pressure. (2)		
	(c)		**Using information from the case study:** **Comment on the extent to which football clubs would appear to be firms that are seeking to maximise profit.** On the one hand given the information offered with regard to revenue growth, increased television income and the fact that 11 premier clubs made profits in the season in question it would appear that they do at least to some degree consider the profit motive. On the other hand the debt figures given, the enormous growth in wages, the relatively small in comparison investment in stadia and the final comments offered in the information, make profit maximisation appear some way off. Clearly no club can continue to make losses indefinitely, but most appear to be happy to trade off profits in favour of seeking to achieve football success. Up to two marks for an answer that offers a one sided view that football clubs appear to be firms seeking to maximise profit, or an alternative objective. Up to a further three marks for a candidate that offers a more balanced approach and rounds off with an evaluative summary or conclusion. A maximum of four marks for a two handed commentary but no overall summary/conclusion.	**[5]**	A one sided answer which offers a conclusion = maximum three marks. To access both marks when arguing the case for clubs appearing to maximise profit, candidates must clearly demonstrate an understanding of the theory underlying profit maximisation, rather than simple profit making.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
	(d)	(i)	**State two characteristics of monopolistic competition.** Any two characteristics, one mark per point. Many buyers and sellers / large number of firms. Differentiated / similar products. Little or no barriers to entry. Little or no barriers to exit. Non-price competition. Good knowledge of market conditions. Price setters / makers. Short run abnormal profits are possible. Long run abnormal profits are not possible.	[2]	
		(ii)	**Discuss the extent to which the structure of English football may be considered to be close to the model of monopolistic competition.** The expected approach would be that candidates at first try to match up the typical characteristics of a monopolistically competitive market with the situation that appears to exist in the English football league structure. Lots of firms (clubs), product differentiation between clubs, good if not perfect knowledge, difficulty in achieving long run abnormal profit, etc. Then consideration may be made of the traits that might suggest otherwise, such as potential barriers to entry and market domination by the few. A conclusion should then round off the discussion with a clear opinion as to the extent to which monopolistic competition exists. 1-2 marks for a one sided approach. This may be just a simple agreement or rejection of the idea that English football may be considered close to the model of monopolistic competition. 3-4 marks for clearly two sided answer, points for and against. 5-8 marks for a discussion and a clearly evaluated judgement as to the extent to which the structure of English football may be considered close to that of monopolistic competition.	[8]	A one sided answer which offers a conclusion = maximum three marks. Maximum five marks for a two sided answer with a basic judgement. Up to two marks for each acceptable and detailed point of discussion. Be mindful of answers which confuse monopolistic competition with monopoly, and only reward if relevant points are clearly made.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
2	(a)		**Analyse how changes in productivity levels impact on unit labour costs.** Candidates might be expected to build up an answer along the lines of the example offered below. A sensible starting point might be a definition and explanation of what is meant by productivity, in terms of output per unit of labour and output per worker hour. Unit labour costs are the labour costs per unit of output. Labour cost include the complete range of costs employers incur when they employ workers, ie wages, costs of recruiting and training, national insurance, redundancy pay and benefits in kind. So they together with productivity are the two key influences on unit labour costs. If productivity increases at a faster rate than wages and add on costs then unit labour costs will fall. Candidates may well aid their answers with sensible use of arithmetic example/s. **Level 3 (9–15)** For an explanation of how productivity levels impact on unit labour costs. For a 13+ mark candidates must offer clear analysis of the impact. **Level 2 (5–8)** For an application of knowledge as to how productivity levels impact on unit labour costs. For a 7+ mark candidates must offer a clear application. **Level 1 (1–4)** For knowledge and understanding of productivity or unit labour costs.	**[15]**	Max of Level 1 if the candidate's answer is limited to production and/or total labour costs.

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Question	Expected Answer	Mark	Rationale/Additional Guidance
(b)	**Discuss how important improvements in labour productivity are to the international competitiveness of a firm.** If a country's firms have lower productivity levels and consequently higher unit labour costs than firms in rival countries, this may make their products less price competitive. On this basis alone it would appear that improvements in labour productivity will be beneficial to UK economic competitiveness. The impact of this will be influenced by whether the proportion of labour costs in total costs and capital costs differ between countries. It is possible that firms in a country may have higher unit labour costs but still have lower average total costs if production in that country is more capital intensive and/or it uses capital more efficiently. In addition even if productivity is lower and unit labour costs are higher this may not prevent a country retaining competitive advantage due to non-price factors such as quality, and after sales service. Discussion of price factors can include the relevance of exchange rates, protectionist barriers and transport costs. Additionally, candidates might discuss the degree of competition in the product market e.g. a firm in a highly competitive international market is more sensitive to changes in labour productivity. **Level 4 (a) (16–20)** For a discussion that includes a judgement of how important improvements in labour productivity can be to the international competitiveness of a firm. The judgement must be clear as to the degree of importance attached to the improvement. **Level 4 (b) (11–15)** For a balanced discussion of how important improvements in labour productivity can be to the international competitiveness of a firm. A discussion lacking balance should receive no more than 13 marks.	[20]	

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5–10)** For an analysis of how improvements in labour productivity can increase the international competitiveness of a firm. Or how factors other than improvements in labour productivity can change the international competitiveness of a firm. For 8+ marks there should be an in-depth analysis of how at least one factor changes international competitiveness. *Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.* **Level 2 (3–4)** For an application of knowledge and understanding of how improvements in labour productivity can increase the international competitiveness of a firm. *Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.* **Level 1 (1–2)** For a knowledge of how improvements in labour productivity can increase the competitiveness of a firm. *Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.*		

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Question			Expected Answer	Mark	Rationale/Additional Guidance
3	(a)		**Analyse the choice between work and leisure for the individual worker in the short run.** Candidates might be expected to build up an answer along the lines of the example offered below. An appropriately used and well labelled diagram or set of diagrams will help candidates illustrate their analytical skill and ability to utilise the Economist's toolbox. In the short run there may be insufficient time for individuals to change jobs. In which case a key influence on the supply of labour is changes in hourly wage rate. When wages are low a rise in wage rate will cause an extension in supply of labour, with a worker being encouraged to work more hours due to the incentive of higher earnings (they substitute hours worked for leisure). After a certain wage rate is reached, however, the offer of a higher wage rate may cause a worker to choose fewer hours of work (substituting leisure for work). They may decide a certain target income level can satisfy their need to spend and may then be keen to enjoy more leisure time. A numerical example and/or a diagram may help explanation here. The change in response gives rise to a backward bending labour supply curve. This behaviour can be explained using the ideas of substitution and income effects. A full explanation of which would help expand the answer and secure higher marks. Of course in reality many workers are contracted to set hours, however with increasing flexibility in terms of hours worked more workers are being faced with a choice between leisure and increased income and therefore the explanation may increasingly prove to be applicable to the real world. **Level 3 (9–15)** For an explanation of the choice between work and leisure for the individual worker in the short run. For a 13+ mark candidates must offer clear in depth analysis.	**[15]**	Where candidates have analysed using economic theory and concepts well, but have simply confused 'income effect' with 'substitution effect' and vice versa, then low Level 3.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Level 2 (5–8) For an application of the choice between work and leisure for the individual worker in the short run. For a 7+ mark candidates must offer a clear application to a real world situation. **Level 1 (1–4)** For knowledge and understanding of the difference and the choice between work and leisure for the individual worker in the short run.		

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Question			Expected Answer	Mark	Rationale/Additional Guidance
	(b)		**Discuss the extent to which non-pecuniary benefits may affect the supply of labour to various occupations.** The link with part (a) could be easily made here via a consideration of the long run. Here supply of labour is influenced by the net advantages of the job. These include pecuniary and non-pecuniary features of the job. A sensible place to start an answer would be with an explanation of the difference between pecuniary and non-pecuniary benefits or factors. There are a wide range of non-pecuniary benefits/factors that impact on the supply of labour both positively and negatively and it would be appropriate here for candidates to analyse these impacts and offer a judgement as to their significance both singularly and collectively. Of course, on an individual level the influence of non-pecuniary benefits/factors may vary greatly, this may be mentioned by candidates and be rewarded. However, it is the supply of all labour to various markets that is the main focus of the question. Non pecuniary benefits/factors might include: • The convenience and flexibility of hours • Status • Chance of promotion • Holidays • Flexibility of location • Qualifications and skills • Job security • Pleasantness of the job • Perks and fringe benefits • Quality and quantity of training on offer • Location • Firm's performance.	**[20]**	

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Level 4 (a) (16–20) For a discussion that includes a judgement of the extent to which non-pecuniary benefits/factors affect the supply of labour .The judgement must be clear as to the degree of influence non-pecuniary benefits/factors may impact on labour supply. **Level 4 (b) (11–15)** For a balanced discussion of the impact of non-pecuniary benefits/factors on the supply of labour. A discussion lacking balance should receive no more than 13 marks. *Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.* **Level 3 (5–10)** For an analysis of the impact of non-pecuniary benefits/factors on the supply of labour. For 8+ marks there should be a valid analysis of at least one occupation. *Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.* **Level 2 (3–4)** For an application of knowledge and understanding of the impact of pecuniary and non-pecuniary benefits/factors on the supply of labour. *Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.*		

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Level 1 (1–2) For a knowledge of either pecuniary and/or non-pecuniary benefits/factors which affect the supply of labour. *Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.*		

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Question			Expected Answer	Mark	Rationale/Additional Guidance
4	(a)		**Analyse the causes and consequences of two types of labour market failure.** Candidates might be expected to build up an answer along the lines of the example offered below. Candidates would be expected to firstly clearly explain what they understand by labour market failure and then go on to analyse two potential causes. Surpluses and shortages of certain forms of labour being the most obvious consequences. Reasons for market failure may include: • Abuse of labour market power, monopoly and/or monopsony/oligopsony • Imperfect information • Trade unions • Skill shortages • Unemployment • Economic inactivity • Discrimination • Immobility of labour. Occupational and/or geographical • Attachment between workers and employers • Inertia **Level 3 (9–15)** For an explanation of two causes/consequences of failure in labour markets. For a 13+ mark candidates must offer a clear analysis of the causes and consequences of market failure. **Level 2 (5–8)** For an application of knowledge of two types of labour market failure in terms of causes/consequences. For a 7+ mark candidates must offer a clear real world application of either. **Level 1 (1–4)** For knowledge and understanding of labour market failure.	**[15]**	Reward well explained and differentiated explanations of occupational and geographical immobility of labour as two separate types of labour market failure. An appropriately used and well labelled diagram or set of diagrams will help candidates illustrate their analytical skill and ability to utilise the Economist's toolbox.

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Question	Expected Answer	Mark	Rationale/Additional Guidance
(b)	**Discuss the extent to which labour market failure has wider economic effects.** Labour market failures lead to a range of effects. They can result in unemployment, skill shortages and the misallocation of labour units to inappropriate job opportunities with the resultant lower productivity and output. Such misallocation of resources increases firms' costs of production and may reduce consumer surplus. Firms consequently operate less efficiently and goods markets are failing to operate as efficiently as possible. On a macroeconomic level, if these failures are found to be common place within an economy then the labour market failure can have many other significant impacts including: Reducing international competitiveness and consequently having an adverse effect on the county's balance of trade position. Increased production costs may be inflationary. Unemployment levels may be higher than otherwise mainly due to structural consequences. Slower rates of economic growth. Raised government costs in terms of state benefits and lost tax revenues. Possible equity consequences. **Level 4 (a) (16–20)** For a discussion that includes a judgement of the extent to which labour market failure impacts on the wider economy. The judgement must be clear as to the degree of impact labour market failure may have on the economy. **Level 4 (b) (11–15)** For a balanced discussion of the impact on the wider economy. A discussion lacking balance should receive no more than 13 marks.	**[20]**	A balanced discussion can take the form of **either** analysis of whether or not LMF has wider economic effects, **or** whether these effects are positive or negative, **or** alternatively the relevant importance of the effects considered.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5–10)** For an analysis of the impact of labour market failure on the wider economy. For eight or more marks there should be an in-depth analysis of at least one impact and how it affects the economy. *Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.* **Level 2 (3–4)** For an application of knowledge and understanding of how labour market failure impacts on the wider economy. *Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.* **Level 1 (1–2)** For a knowledge of how labour market failure impacts upon the wider economy. *Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.*		

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RECOGNISING ACHIEVEMENT

ADVANCED GCE

ECONOMICS

Economics of Work and Leisure

F583

OCE/25987

Candidates answer on the question paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Friday 28 January 2011
Afternoon

Duration: 2 hours

F583

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- This document consists of **20** pages. Any blank pages are indicated.
- You will be assessed on the quality of your written communication in Section B.

A calculator may be used for this paper

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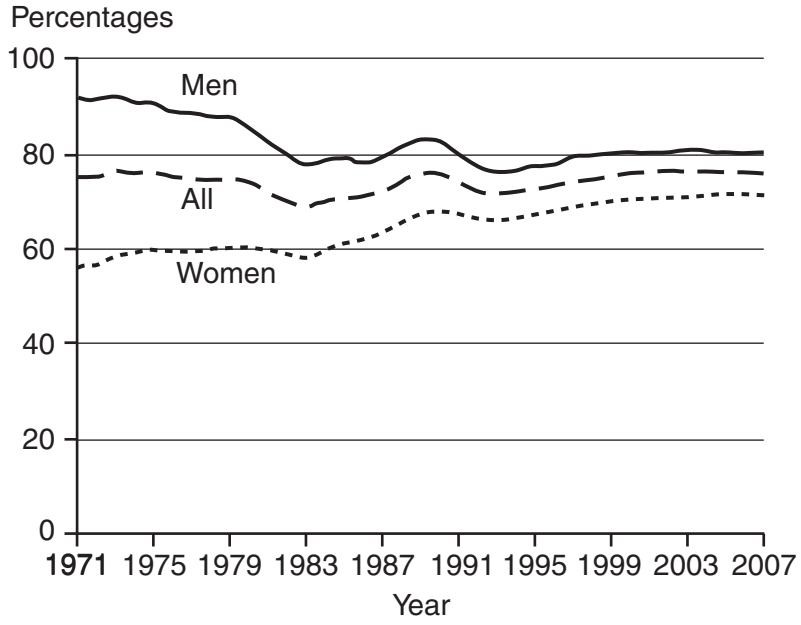
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2

Economic activity rates and the changing age profile of the UK's working population

Many people spend a large proportion of their lives in the labour force, so their experience of work has an important impact on them. Although still large, this proportion has been falling. Young people are remaining longer in education; older people are spending more years in retirement, a contributory factor to this being the increase in life expectancy. Employment in the service sector continues to increase, while employment in manufacturing continues to fall. There have also been differences between the sexes in the trends of those in employment, unemployed people and those who are economically inactive.

Fig. 1 Employment rates by sex in the UK



A snapshot of the labour force in 2020

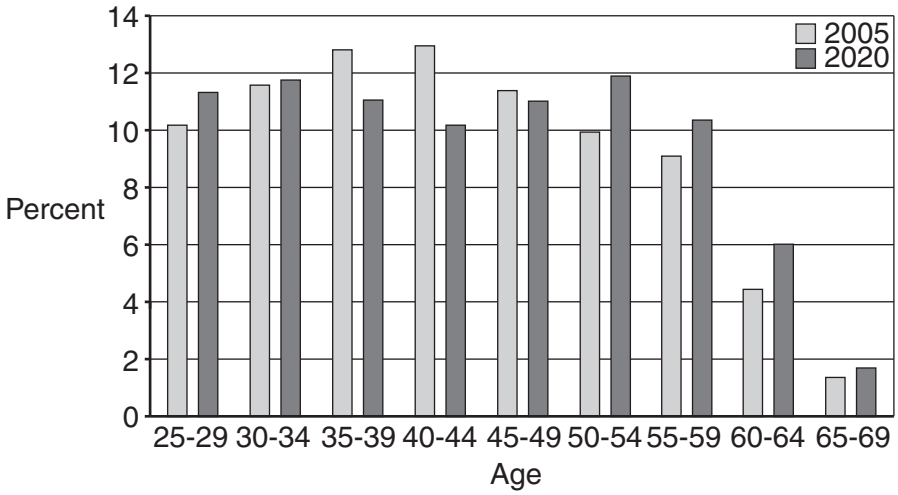
In 2020, the number of economically active people is projected to be 32.1 million. Of these, 53.3 per cent (17.1 million) will be men and 46.7 per cent (15.0 million) will be women. This compares with 54.2 per cent and 45.8 per cent respectively in 2005.

Looking at age structure, the ageing of the labour force will be the most significant development by 2020. Fig. 2 shows the number of economically active people as a percentage of the entire labour force in five-year age bands for those aged between 25 and 69. The proportion of economically active people who belong to older age groups will be significantly higher in 2020, compared with 2005. This is a direct effect of the underlying demographic trends.

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Fig. 2 The age profile of the working population, 2005 and 2020



One of the most interesting characteristics of the labour force in 2020 relates to the number of economically active people who have exceeded the age at which they are eligible for state pension. In particular, there are projected to be 775,000 economically active people above the age of 65 in 2020. This compares with 582,000 in 2005 and represents an increase of around 33 per cent. This is a combined effect of the increasing number of people in older age groups due to demographic movements, as well as the increasing trend in the participation of older people in the labour market. *20*

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Section A

Answer **all** questions from this section

1 (a) (i) Explain what is meant by the derived demand for labour.

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..... **[2]**

(ii) State and explain **two** possible reasons which could account for the fall in employment in manufacturing.

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..... **[4]**

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(b) Distinguish between the actual and potential labour force.

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..... **[2]**

(c) Explain what is meant by the term 'participation rate'.

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..... **[2]**

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(d) Using the information in Fig. 1:

(i) describe the main changes in the labour supply between 1971 and 2007

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..... **[2]**

(ii) comment on the causes of these changes in the labour supply

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..... **[5]**

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(e) Using the information in Fig. 2, discuss the extent to which the changes in the age profile of the labour supply are likely to benefit the UK economy.

.... **[8]**

Section A Total: [25 marks]

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Section B

Answer **one** question from this section

2 **(a)** Analyse how the concepts of diminishing returns and diseconomies of scale can be applied to leisure markets. **[15]**

(b) Discuss the extent to which firms in the leisure industry always seek to maximise profits. **[20]**

3 **(a)** Using examples from the labour market, analyse the difference between transfer earnings and economic rent. **[15]**

(b) Discuss the extent to which marginal revenue product is the main determinant of wages. **[20]**

4 **(a)** Analyse **two** policies which have been used by the UK government to improve labour market flexibility. **[15]**

(b) Discuss how successful such intervention has been in the UK economy. **[20]**

Section B Total: [35 marks]

Paper Total: [60 marks]

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Section B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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Additional answer space. Any answers written in this space must be clearly numbered.

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GCE

Economics

Advanced GCE

Unit **F583:** Economics of Work and Leisure

Mark Scheme for January 2011

Oxford Cambridge and RSA Examinations

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Question			Expected Answer	Mark	Rationale/Additional Guidance
1	(a)	(i)	**Explain what is meant by the derived demand for labour.** 2 marks for a clear explanation of derived demand e.g. The demand for labour is dependant upon the demand for the product that labour is employed to produce; the greater the demand for the product the higher will be the demand for labour to produce the product. 1 mark for a less precise explanation.	[2]	1 mark for stating that labour is not demanded for its own sake. 1 mark for saying that labour is demanded for what it produces. 1 mark for saying that the greater the demand for the product, the greater the demand for labour. 1 mark for a specific example.
		(ii)	**State and explain two possible reasons which could account for the fall in employment in manufacturing.** 1 mark for a correct statement plus a second mark if the statement is correctly explained. ie 1+1 x 2. Reasons could include, International competition, Rising incomes increasing the demand for services, Technological advances, Loss of UK competitiveness.	[4]	Candidates MUST offer two distinct reasons. Be mindful of overlap between the two reasons.
	(b)		**Distinguish between the actual and potential labour force.** 2 marks for a clear distinction between the two e.g. The actual labour force is made up of the employed workforce plus those who are unemployed but actively seeking work (1). The Potential labour force includes people who are economically inactive (1). 1 mark for an answer with less precision.	[2]	Accept economically inactive in potential labour force. Accept PLF is greater than the ALF and vice versa.
	(c)		**Explain what is meant by the term participation rate.** The labour force participation rate represents the proportion of the working age people who are economically active (2).	[2]	Also accept the formula of the participation rate for 2 marks. e.g. The number of economically active people/ the population of working age x 100 = Participation rate. Candidates must clearly explain that this is a rate/percentage for both marks. Allow use of activity rate.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
	(d)	(i)	**Using the information in Fig 1** **Describe the main changes in the labour supply between 1971 and 2007.** 1 mark for any correct observation. • The male participation rate has fallen. • The female participation rate has increased. • The overall participation rate has remained fairly constant with no obvious long term increase or decrease. • There is a reduction in the gap between male and female employment rates.	[2]	Do not reward candidates who merely give a year by year account of the changes shown in figure 1. Do not reward candidates who refer to numbers of men/women/all as opposed to percentages.
		(ii)	**Comment on the causes of these changes in the labour supply.** Factors affecting female participation include: • Government policy. • Social trends • Reduction in discrim. • Changing economic structure. Male participation has been mostly influenced by changes in the structure of the economy. The shrinking primary and secondary sectors in comparison to the growing tertiary sector. Commentary should come in the form of some expression of the relative degree of influence each factor may have had. **Up to 2 marks** for an answer that passes some explanation of the main causes of these changes. **Up to a further 3 marks** for a candidate that offers a commentary of the relative significance of the causes mentioned in the first part of the answer, and rounds off with an evaluative summary or conclusion.	[5]	Candidates **MUST** offer at least two causes to gain the (2) marks for explanation. A candidate that offers only one cause, but goes on to provide relevant commentary can still score (4) marks. Full marks can be awarded to an answer which deals only with females or males. If answer deals with causes but has no commentary – MAX 2.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
	(e)		**Using the information in Fig 2** **Discuss the extent to which the changes in the age profile of the labour supply are likely to benefit the UK economy.** The evidence provided in Fig 2 suggests that a much larger proportion of the working population will be over 50 in 2020 than was the case in 2005. This may prove beneficial or a handicap to the economy. Possible benefits include, a much more experienced workforce, a more productive labour force in consequence, less costly training bills as a result etc. The problems surround the demographic time bomb. Increasing dependency ratios, less labour mobility, limitations on economic growth, the pension problem etc. Nevertheless, should certain labour shortages arise migrant workers may be available to plug these gaps as in the past and consequently once again reduce the potential negative aspects of an aging working population. 1 to 2 marks for a one sided approach. This may be just a simple explanation of either the benefit or the problems associated with the changes in the age profile. 3 to 4 marks if the answer is clearly two sided, both benefits and problems. 5 to 8 marks if the answer offers discussion followed by a clearly evaluated judgement as to the extent to which the UK economy may benefit or be handicapped by the change in age profile.	**[8]**	Candidates that provide a single sided approach and offers a judgement can score a maximum of (3) marks.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
2	(a)		**Analyse how the concepts of diminishing returns and diseconomies of scale can be applied to leisure markets.** Candidates might be expected to build up an answer along the lines of the example offered below. A clear definition and explanation of the two terms would be an obvious starting point. This may be supported by an appropriately drawn and well labelled diagram or set of diagrams which will help candidates illustrate their analytical skill and ability to utilise the Economist's toolbox. Alternatively or in addition candidates may choose to offer arithmetic examples to illustrate the two concepts. What is vital is that the candidates identify diminishing returns as a **short run** concept and diseconomies of scale as a **long run** idea. Also it could be pointed out that the former concept is related directly to output and the latter concept is a cost consequence. This all needs to be illustrated in the context of a leisure market in order to secure the higher marks especially in levels 2 and 3. <u>Level 3 (9–15)</u> For an explanation of the difference between the concepts of diminishing returns and diseconomies of scale. For a 13+ mark candidates must offer clear analysis of the difference between the concepts two in the context of a leisure market. <u>Level 2 (5–8)</u> For an application of knowledge as to the difference between the concepts of diminishing returns and diseconomies. For a 7+ mark candidates must offer a clear recognition that the former is a short term phenomenon and the latter long term, and/or this is illustrated in the context of a leisure market.	**[15]**	Correct coverage of only one of the concepts in the question, including analysis – max of bottom of Level 3. Analysis illustrating both concepts should be precise in terms of • declining marginal product as additional units of variable factor are employed • increase in **long run average** costs as output increases.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Level 1 (1–4) For knowledge and understanding of diminishing returns and diseconomies of scale.		
	(b)		**Discuss the extent to which firms in the leisure industry always seek to maximise profits.** Candidates need to address the question directly and possibly start by outlining profit maximisation and some possible alternative objectives firms may have as they operate in different leisure markets. Obvious objectives may include, profit maximisation, growth, increasing market share, satisficing etc. It may make sense for candidates to illustrate the case of profit maximisation which could possibly be enhanced by the careful application of cost diagrams ie .a standard presentation of a firm operating in a leisure market, be it Monopolistic, oligopoly or monopoly. It would then be necessary for candidates to consider examples of alternative objectives, applying them to examples in the leisure industry. Having offered an alternative perspective it will then be necessary to arrive at a judgement as to the extent to which profit maximisation is an objective can be applied to any leisure industry. Clearly it is anticipated that the assertion in the question can not be wholly supported but it is the degree to which the objective may be present that is important to the quality of the answer. It is the ability to evaluate based on clear analysis that is being judged, not the rather obvious conclusion. Level 4 (a) (16–20) For a discussion that includes a judgement of the extent to which profit maximisation is the main objective of firms in the leisure industry. The judgement must be clear as to the degree of significance in each case.	**[20]**	To score a mark of 11+, candidates must have offered valid economic analysis upon which the discussion. Is based. If this is not provided, then the attempted discussion is no more than an unexplained assertion and therefore scores a maximum Level 2 mark. 11-13 marks for a predominantly one sided discussion underpinned by relevant economic analysis. 14 – 15 marks for a two sided discussion with analysis on both sides. 16+ marks for a two sided discussion, underpinned by economic analysis with a clear judgement provided.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Level 4 (b) (11–15) For a balanced discussion of the various objectives that firms may adopt. A discussion lacking balance should receive no more than 13 marks. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. Level 3 (5–10) For an analysis of profit maximisation or other possible objectives. For 8+ marks there should be analysis related to a leisure industry. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. Level 2 (3–4) For an application of knowledge and understanding of how objectives may differ between firms in different leisure markets. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive. Level 1 (1–2) For a knowledge of different objectives of the firm. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		

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Question			Expected Answer	Mark	Rationale/Additional Guidance
3	(a)		**Using examples from the labour market analyse the difference between transfer earnings and economic rent.** Candidates might be expected to build up an answer along the lines of the example offered below. A clear definition and explanation of the two terms would be an obvious starting point. This may be supported by an appropriately drawn and well labelled diagram or set of diagrams which will help candidates illustrate their analytical skill and ability to utilise the Economist's toolbox. This should then be followed by a consideration of the elasticity of the supply of labour and the impact this will have on the split between the two types of payment. <u>Level 3 (9–15)</u> For an explanation of the difference between transfer earnings and economic rent. For a 13+ mark candidates must offer clear analysis of the two concepts. <u>Level 2 (5–8)</u> For an application of knowledge as to the difference between transfer earnings and economic rent. For a 7+ mark candidates must offer a clear distinction between the two concepts. <u>Level 1 (1–4)</u> For knowledge and understanding of transfer earnings and economic rent.	[15]	Candidates who provide basic analysis via prose, numerical example but more probably via a simple demand and supply diagram are likely to score at least 9 marks. Candidates who go on to accurately develop this in terms of elasticity of supply will score at least 13 marks.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
	(b)		**Discuss the extent to which marginal revenue product is the main determinant of wages.** Candidates might be expected to build up an answer along the lines of the example offered below. A sensible starting point might be an explanation/analysis of the theory in question. Marginal revenue product theory suggests that the demand for any factor of production depends on its marginal revenue product. According to this theory the quantity of any factor of production employed will be determined where the marginal cost of employing one more unit of the factor equals the marginal revenue product (MRP) of that factor. MRP of labour is the change in a firm's revenue resulting from employing one more worker. It is found by multiplying marginal product (MP) by marginal revenue (MR). The marginal product of labour (MPL) is the change in total output that results from employing one more worker. As more workers are employed so the MPL may increase. Once a certain level of employment is reached however, MPL may fall due to diminishing returns. Candidates may then go on to illustrate this with use of a perfectly competitive labour market example, including appropriate diagrams. It is also important that candidates demonstrate a shift of the MRP curve or two separate MRP curves to indicate the effect differences in MRP have on wage differences. All this however, only takes account of the demand side of the labour market. Candidates then can go on to offer an analysis of the supply side of the labour market which offers a multitude of elements to focus upon including, pecuniary and non pecuniary factors, labour mobility, actions of trade unions, the presence of monopsony purchasers of labour, elasticity of supply of labour, etc.	**[20]**	The focus of the question is wage determination. An answer which simply analysis MRP theory and goes on to criticise it without considering other determinants of wages e.g. supply factors can only achieve a Level 3 mark. To score a mark of 11+, candidates must have offered valid economic analysis upon which the discussion. Is based. If this is not provided, then the attempted discussion is no more than an unexplained assertion and therefore scores a maximum Level 2 mark. 11-13 marks for a predominantly one sided discussion underpinned by relevant economic analysis. 14 – 15 marks for a two sided discussion with analysis on both sides. 16+ marks for a two sided discussion, underpinned by economic analysis with a clear judgement provided.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Having offered some analysis of other factors influencing the determinants of wages the better answers will summarise the discussion with an evaluated conclusion as to the extent to which MRP is the main determinant of wages. <u>Level 4 (a) (16–20)</u> For a discussion that includes a judgement of the extent to which the MRP theory is the main determinant of wages. The judgement must be clear as to the degree of importance the concept. <u>Level 4 (b) (11–15)</u> For a balanced discussion of the extent to which the MRP theory is the main determinant of wages. A discussion lacking balance should receive no more than 13 marks. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. <u>Level 3 (5–10)</u> For an analysis of how the MRP theory influences wages or how an alternative factor determines wages. ie – a supply factor. For 8+ marks the analysis must include either an illustrative diagram or an arithmetic example of the make-up of the MRP. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.		

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Level 2 (3–4) For an application of knowledge and understanding of how the MRP theory influences the determination of wages. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive. Level 1 (1–2) For a knowledge of how the MRP theory influences the determination of wages. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		
4	(a)		**Analyse two policies that have been used by the UK government to improve labour market flexibility.** Candidates might be expected to build up an answer along the lines of the example offered below. One starting point might be to clarify exactly what is meant by labour market flexibility. A flexible labour market being one that adjusts quickly and smoothly to changes in demand and supply conditions. There are a variety of types of flexibility including numerical, temporal, locational, functional and wage. There are a number of steps the government can take in order to increase the flexibility of the labour force. These could include: • Increasing labour market information. • Providing training and education specific to the needs of firms.	**[15]**	NMW **can only** be rewarded if the candidate produces a clear argument as to how its presence specifically improves LMF. For instance – creating an incentive for work and therefore providing employers with a greater choice of labour. Similar argument applies to any-anti discrimination legislation – must focus on increased incentive to work. Only one relevant policy considered with analysis can achieve bottom of level 3. Higher level analysis might connect increased flexibility with an increase in the elasticity of supply of labour.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			• Altering marginal tax rates and benefits. • Removing employment protection legislation. • Subsidising geographical mobility. An appropriately used and well labelled diagram or set of diagrams will help candidates illustrate their analytical skill and ability to utilise the Economist's toolbox. <u>Level 3 (9–15)</u> For an explanation of how the government methods to improve labour market flexibility are intended to work. For a 13+ mark candidates must offer clear analysis of how each method should operate in improving flexibility. <u>Level 2 (5–8)</u> For an application of knowledge as to how the government methods to improve labour market flexibility are intended to work. For a 7+ mark candidates must offer a clear real world application. <u>Level 1 (1–4)</u> For knowledge and understanding of how the government methods to improve labour market flexibility are intended to work.		
	(b)		**Discuss how successful such intervention has been in the UK economy.** There is no doubt that over the long term there have been enormous improvements in the flexibility of the UK labour market. The UK has a more flexible labour market than most of its fellow EU member countries. The heart of the discussion here must lie around the extent to which this improvement has been down to deliberate steps taken by the government and what others powerful influences may have been at play.	**[20]**	To score a mark of 11+, candidates must have offered valid economic analysis upon which the discussion. Is based. If this is not provided, then the attempted discussion is no more than an unexplained assertion and therefore scores a maximum level 2 mark. 11-13 marks for a predominantly one sided discussion underpinned by relevant economic analysis. 14-15 marks for a two sided discussion with analysis on both sides.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Other influences that may be considered are: • The impact of global competition • The changed structure of the economy. • The changed composition of labour demand. Eg the change in nature of final goods and services being demanded. • The changed composition of the supply of labour. Eg the increase in female participation. The question is potentially very wide ranging .Nonetheless, as long as candidates analyse the situation and offer a judgement, a high mark can be secured. <u>Level 4 (a) (16–20)</u> For a discussion that includes a judgement of the extent to which government intervention has been successful in the UK economy. The judgement must be clear as to the degree of success achieved. <u>Level 4 (b) (11–15)</u> For a balanced discussion of the extent to which government intervention has been successful in the UK economy. A discussion lacking balance should receive no more than 13 marks. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.		16+ marks for a two sided discussion, underpinned by economic analysis with a clear judgement provided. An answer which provides adv and disadv of various policies to improve flexibility is likely to be providing a L4 answer assuming that analysis is involved. Intervention **must** refer to labour market flexibility as stated in question. General answers based on govt. intervention in general are unlikely to be relevant.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			Level 3 (5–10) For an analysis of government intervention in the UK economy. For 8+ marks there should be an in-depth analysis of the effectiveness of at least one policy Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. Level 2 (3–4) For an application of knowledge and understanding of the success of government intervention in the UK economy. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling,punctuation and grammar, some of which may be noticeable and intrusive. Level 1 (1–2) For a knowledge of how successful government policy has been in the UK economy Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		

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THIS IS A NEW SPECIFICATION

OCR
RECOGNISING ACHIEVEMENT

ADVANCED GCE
ECONOMICS
Economics of Work and Leisure

F583

Candidates answer on the Question Paper

OCR Supplied Materials:
None

Other Materials Required:
- Calculators may be used

Wednesday 23 June 2010
Morning

Duration: 2 hours

OCE/22315

Candidate Forename		Candidate Surname	

Centre Number						Candidate Number				

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be awarded marks for the quality of written communication in Section B.
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Section A

Answer **all** questions.

Measuring Productivity
What we produce and the wages it costs

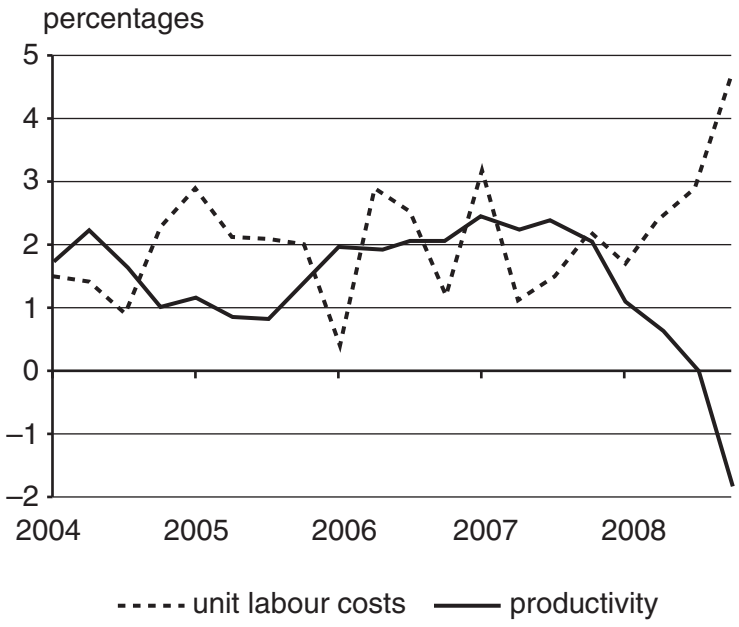
According to the government one of its central objectives is to achieve high and stable levels of economic growth and employment. Small increases in the rate of growth can have a large impact on total output, if they are sustained from the short run to the long run.

Improving the productivity of labour, measured by output per worker, is seen as a key element in achieving an increase in the UK's economic growth. This is seen as particularly important as, historically, the UK's productivity has been below that of many other advanced industrial economies.

Productivity is not to be confused with production which is a measure of the output of an economy.

Fig. 1 shows the relationship between productivity and unit labour costs.

Fig. 1 Productivity and unit labour costs (annual % change)



As Fig. 1 shows, productivity across the whole economy decreased by 1.8 per cent in the fourth quarter of 2008 compared with the same quarter in 2007.

Once production figures are available, they are then used to calculate unit labour costs which are an important indicator of the competitive wellbeing of the economy.

Unit labour costs are measured for the whole economy, and comparisons are made between the UK data and those of its main trading partners.

Unit labour costs across the whole economy in the fourth quarter of 2008 were 4.7 per cent higher than the same quarter a year earlier, up from an increase of 2.9 per cent in the previous quarter.

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1 **(a)** Distinguish between the short run and the long run.

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..... **[2]**

(b) **(i)** Explain what is meant by unit labour costs.

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(ii) State and explain **two** reasons why unit labour costs may change.

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2. .....

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(c) Using the information in Fig. 1:

(i) describe the relationship between unit labour costs and productivity between 2004 and 2008.

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(ii) comment on the likely impact on the UK economy of this relationship from mid 2007.

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(d) Discuss the extent to which the use of supply-side policies can help to improve productivity in the UK economy.

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Section A Total: [25 marks]

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Section B

Answer **one** question.

2 **(a)** Analyse, using examples, how trade unions may be responsible for labour market failure. **[15]**

(b) Discuss the extent to which trade union activity may still be seen to be a significant cause of labour market failure in 2010. **[20]**

3 **(a)** Analyse the factors which determine the demand for labour. **[15]**

(b) Discuss the extent to which the ease of factor substitution may influence the price elasticity of demand for labour. **[20]**

4 **(a)** Analyse, using examples, how barriers to entry may determine the degree of competition in leisure markets. **[15]**

(b) Using a leisure market of your choice, discuss the extent to which it may be considered to be an oligopoly. **[20]**

Section B Total: [35 marks]

Paper Total: [60 marks]

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Section B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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Additional answer space. Any answers written in this space must be clearly numbered.

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GCE

Economics

Advanced GCE **F583**

Economics of Work and Leisure

Mark Scheme for June 2010

Oxford Cambridge and RSA Examinations

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Question			Expected Answer	Mark	Rationale/Additional Guidance
1	(a)		**Distinguish between the short run and the long run.** 2 marks for a clear distinction e.g. the short run is the period of time in which at least one factor of production is in fixed supply (1), the long run is the period of time when it is possible to alter all factors of production.(1) 1 mark if candidate fails to clearly distinguish between the two periods. E.g. gives only one correct definition.	[2]	Reference to short run and long run in the context of Economic growth can earn up to 2 marks if both elements are correctly and clearly distinguished i.e. SR growth occurs within a fixed capacity, LR growth occurs when the capacity is capable of increase. SR must have mention of fixed factor/factors for the mark to be awarded in the micro context.
1	(b)	(i)	**Explain what is meant by unit labour costs.** 2 marks for an accurate explanation of unit labour costs, i.e. the labour cost per unit of output (2) or Total labour costs divided by Total output. (2) If answers lack such a concise definition giving only a partial explanation, then a 2nd mark may be awarded if candidate indicates that labour costs include the whole range of costs employers incur when employing labour, i.e. wages plus recruitment and training costs, national insurance contributions, benefits in kind etc.	[2]	No marks for saying it is the cost of employing one more labour unit. Clear reference must be made to the cost of producing a unit of output.
1	(b)	(ii)	**State and explain two reasons why unit labour costs may change.** 6 marks for an answer that offers 2 reasons fully explained. 1 mark for each reason plus up to an extra 2 for the quality of explanation i.e. 2x3. The cost of labour is made up of a number of elements at least 80% of which is normally wages. These costs, together with productivity, are the two key influences on unit labour costs. It is expected that both element should be mentioned to gain the full range of marks. An answer that for example concentrates on two cost elements should be awarded a maximum of 4 marks, i.e. 2 marks for two stated reasons plus a maximum of 2 more marks for an explanation of what would then be the same element.	[6]	Changes in the cost of employing labour. Changes in the productivity of labour.

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1	(c)	(i)	**Using the information in Fig. 1;** **describe the relationship between unit labour costs and productivity between 2004 and 2008.** There is some evidence of a negative relationship between unit labour costs and productivity. After the first quarter of 2004 until mid 2005 productivity rate of growth falls, during which time for the most part wage costs are increasing at an increasing rate. This suggests that a slowing rate of productivity growth may increase upward pressure on unit labour costs. From mid 2005 to 2007 the productivity rate is increasing while there are significant fluctuations in unit labour costs suggesting less of a relationship may exist. From mid 2007 onwards there is clear evidence again of the negative relationship as the productivity rate falls rapidly, eventually becoming negative, and unit wage costs rise significantly.	**[2]**	As the relationship appears to change 2004-2008, 2 separate references to the evidence provided in Fig 1. Reference to two separate time span examples of the same relationship is sufficient for both marks. It is important that candidates focus on the relationship rather than just repeat in words the pattern of the graph. Year by year regurgitation of changes in rates without suggestion of a relationship or otherwise should score zero. E.g. one goes up and one goes down is not enough. Reference needs to be made to positive, negative, varying or perhaps no distinct relationship. NB Productivity does not fall until mid 2008, only the rate of growth. Unit labour costs rise throughout.
1	(c)	(ii)	**comment on the likely impact on the UK economy of this relationship from mid 2007.** For the most part increases in labour costs are greater than increases in productivity. This is especially exaggerated after mid 2007. The immediate implication of this is the impact this will have on average cost of production and consequently our international competitiveness and domestic wage cost-push pressures. The longer the situation remains as illustrated in the data from2007 onwards, the more negative the impact of these trends is likely to be on the UK economy. Longer term consequences are likely to be increased unemployment, slowing economic growth, increasing inflationary pressure and deterioration of the balance of payments position, i.e. all the KPO's hit	**[5]**	2 marks for a one sided analysis/explanation of the likely impact. Up to 3 further marks can be gained by acting upon the directive word "comment". 1 mark for a qualification of the analysis or an evaluation of the strength of a one sided commentary. 1 mark for an elaboration of a qualification. 1 mark for an evaluative summary or conclusion. Therefore a one sided answer that concludes with a judgement can score 2 marks for explanation plus one for evaluation, i.e. 3 max.

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			badly. This is the kind of answer that would secure the 2 analysis marks for the question. On the other hand short lived movements of this nature need not be too disastrous. A depreciation of the currency and the maintenance or improvement in the quality of UK exports may more than compensate for the negative trend displayed in fig 1.Also it will depend on what is happening to such statistics in other competitor economies at the same time. This type of qualification could then pick up a further 2 marks for evaluation, with the final AO4 mark coming from a summary comment e.g. It is particularly worrying that the distance between the two measures is so exaggerated in the second half of 2008, a trend that is totally at odds with the picture from 2004 to mid 2007. Up to 2 marks for an answer that passes some comment about the trends displayed in fig1from 2007 and the potential impact this could have on the UK economy. Up to a further 3 marks for a candidate that qualifies commentary made in the first part of the answer and rounds off with an evaluative summary or conclusion.		
1	**(d)**		**Discuss the extent to which the use of supply-side policies can help to improve productivity in the UK economy.** Failure to achieve significant productivity gains of the kind that many of our competitor nations have experienced has been almost a perennial problem in the UK since the end of WW2. Consequently this area has often been the focus of government policy for many years. To this end in more recent times the government has turned to supply-side policies to effect the necessary improvements. Among the key influencing factors affecting productivity would be: • the standard and availability of capital equipment.	**[8]**	Up to 5 marks for an answer that analyses two differing views of the usefulness of supply-side policy to this end. 6+ For answers that offer the above plus a clear evaluated judgement.

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			• productivity incentives. • increasing competition within individual markets. • improved skills of the workforce. • greater labour flexibility. Government policies might include: Public sector investment programmes especially into new capital and infrastructure. Taxation policy to encourage increased output e.g. lower income tax rates. Subsidies. Tax breaks for re-investment of profits. Deregulation. Increased spending on education and training. All policies should be directed to increasing output from the available input. It is perhaps difficult to see how government can achieve short term improvement except perhaps with good use of taxation policy. However, long term gains depend on correct focusing of policy and the ability to encourage enterprise, technical innovation, change workers attitudes etc. 1 to 3 marks for a one sided approach. This may be just a simple explanation of supply-side policy. 4 to 5 marks if the answer is clearly two sided. 6 to 8 marks if the answer offers discussion followed by a clearly evaluated judgement as to the extent to which supply-side policies can help to improve UK productivity in the short and the long term.		

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2	(a)		**Analyse, using examples, how trade unions may be responsible for labour market failure.** Candidates might be expected to build up an answer along the lines of the example offered below. Labour market failure occurs when the market forces of supply and demand do not produce an efficient allocation of resources. Evidence of such failure occurs in a number of forms and for a number of reasons. One reason pertinent to the question is the abuse of market power. A trade union can develop a monopoly in the supply of labour to a particular market and as a consequence begin to abuse that power in such a way as to cause market failure. The clearest example of this can be illustrated using a market diagram demonstrating how a monopoly trade union can raise the wages being paid to a level above the market clearing wage. This can cause a redistribution of income in favour of union members, but at the cost of an inefficient allocation of resources, and a rise in production costs above the productively efficient level. **Level 3 (9-15)** For an explanation of how trade unions may be responsible for failure in labour markets. For a 13+ mark candidates must offer clear analysis of trade union manipulation of the free play of the market. **Level 2 (5-8)** For an application of knowledge as to how trade unions may be responsible for failure in labour markets. For a 7+ mark candidates must offer a clear real world application. **Level 1 (1-4)** For knowledge and understanding of how trade unions may be responsible for failure in labour markets.	**[15]**	Up to 12 marks for an analysis of the question. This may well be an answer accompanied by a diagram showing how trade union action can lead to higher than equilibrium wages in a labour market. The diagram must be fully explained to secure all the marks. In order to secure a 13+ something extra to the above is required. e.g. Reference to demarcation and its impact on efficiency. Reference to staffing requirements in addition to higher than equilibrium wages. Again this could be clearly illustrated by diagram. Reference to additional benefits being requested by unions. E.g. BA staff using heavily discounted flight tickets.

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2	(b)		**Discuss the extent to which trade union activity may still be seen to be a significant cause of labour market failure in 2010.** A valid approach is to consider the strength of other causes of market failure in 2010 which may now be seen as more significant than Trade Unions. Candidates might be expected to build up an answer along the lines of the example offered below. Following on from the likely analysis of union activity in part a) it is necessary to consider the important points in the question and avoid repetition of arguments already made. Although reference to the above analysis may be useful, it is not necessary to repeat the explanation, and indeed this would be time wasting. The pertinent element of the question is union activity and its influence in 2010. The trend in trade union membership in the UK has been in decline for many years, as has the number of trade unions. The last 30 years or more have seen a marked decline in industrial action and labour disputes. The labour markets in the UK have become very flexible in comparison with both the past and other member countries of the EU. Trade union power has, it is thought by many, been greatly weakened by legislative steps taken by previous government administrations. The consequence has been a weakening of trade union bargaining power. All this evidence points to a reduction in the influence trade unions have on the labour market and consequently the likelihood that they may be causing the market to fail. On the other hand unions have made great strides to get employers to improve the conditions of work for many of their members in terms of safer working conditions, better structured training programmes and improved communication links between workers and management.	**[20]**	A one sided answer can achieve a maximum of 10 marks if well analysed. A two handed approach short on analysis and/or lacking balance can gain up to a maximum of 13 marks. 15 marks can be awarded for a balanced analysed discussion that is lacking in overall judgement. For 16+ marks a candidate must offer balanced analysis and a clear evaluated judgement of the question set. NB If a candidate produces an answer that fulfils the requirements for a level 4 (a) mark and it is the best that could be expected given the examination time constraint, then FULL marks must be awarded. Analysis can be identified in 3 basic forms. i) Diagrammatic analysis. ii) Numerical analysis. iii) Analysis in prose form which makes use of terms and concepts contained in the Economist's toolkit, which clearly illustrates the direction and links in a chain of causation. It is important that analysis is clearly flagged up by the

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			Such improvements have come at some cost to employers. The unions have amalgamated on a fairly large scale and consequently in theory increased their potential to exercise monopoly strength. The unions also still have a very important role to play in establishing work practices within many firms in the UK economy and as a consequence have the potential to impact on labour markets both positively and negatively. In conclusion, although it is unlikely that all trade union activity of a market failure nature has been eradicated, it would appear from the evidence, that the number of times unions who do abuse their power, has reduced considerably. Today we have much better labour relations. Although the cost of hiring, training and protecting labour at work has risen, it may be argued that those costs pay dividends in terms of greater productivity and flexibility. Labour markets do continue to fail, but as a significant reason for that failure trade unions appear to be much less responsible and consequently must be considered less of a threat to efficiency. **Level 4 (a) (16-20)** For a discussion that includes a judgement of the extent to which trade union activity may still be seen as a significant cause of labour market failure in 2010.The judgement must be clear as to the degree of disruption that still may be caused by trade unions. **Level 4 (b) (11-15)** For a balanced discussion of trade union activity in labour markets in 2010. A discussion lacking balance should receive no more than 13 marks. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant,		use of the L3 annotation. Without the evidence of at least some attempt at economic analysis, candidates can score only a maximum of 4 marks for knowledge and application on the b section of the essay question.

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			have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5-10)** For an analysis of how trade union activity may still be seen as a cause of labour market failure in 2010. For 8+ marks there should be an in-depth analysis of one activity still seen as potentially significant. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4)** For an application of knowledge and understanding of how trade union activity may still be seen as a cause of labour market failure in 2010. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive. **Level 1 (1-2)** For a knowledge of how trade union activity may still be seen as a cause of labour market failure. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		

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3	(a)		**Analyse the factors which determine the demand for labour.** Candidates might be expected to build up an answer along the lines of the example offered below. The demand for labour is of course a derived demand, so the number of workers a firm wishes to employ depends principally on the revenue that can be earned from the sale of what is produced. A number of factors may be analysed, these include: • Demand and expected future demand for the product produced. • The price being paid for the product produced. • The productivity of labour. • Wage rates. • Complementary labour costs. • The price of other factors. A good approach to the question might be to consider the marginal revenue product explanation of the demand for any factor of production. This would then allow candidates to focus on the key elements of labour cost and productivity. In addition, this approach would also allow the candidate to demonstrate sophisticated analysis of the factors, perhaps including some diagrammatic illustration. **Level 3 (9-15)** For an explanation and analysis of the factors that determine the demand for labour. For a 13+ mark candidates must offer clear analysis of the MRP theory. **Level 2 (5-8)** For an application of knowledge as to the factors that determine the demand for labour. For a 7-8 mark candidates must offer explanation of at least two factors.	**[15]**	A maximum of 11 marks can be gained for an answer that offers analysis without reference to the MRP approach. 12-13 marks for a basic use of MRP theory. For 13+ candidate must <u>thoroughly</u> analyse using the MRP theory. Increase in P X MPhP = Increased MRP therefore Increased demand for labour, and/or Increase in output per labour unit (MP) x P= increased MRP therefore increased demand for labour. A diagram or set of diagrams could be usefully employed to illustrate the analysis, but equally a numerical example or a very well worded account could also secure full marks.

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			Level 1 (1-4) For knowledge and understanding of factors that determine the demand for labour.		

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3	(b)		**Discuss the extent to which the ease of factor substitution may influence the price elasticity of demand for labour.** Candidates might be expected to build up an answer along the lines of the example offered below. The price elasticity of demand (ped) is a measure of demand for labour's response to a change in the price of labour i.e. the wage. The elasticity is also known as the wage elasticity of demand. There are a number of factors that influence the elasticity of demand for labour including: The price elasticity of demand for the product The proportion of wage costs in the total costs The elasticity of supply of complementary factors The time period involved and of course the ease of factor substitution. If it becomes easier to substitute capital or indeed any other factor for labour the demand for labour will become more elastic. A rise in wages will cause workers to be more readily replaced by machines and eventually demand for labour may fall by a greater percentage than the rise in wages, i.e. the ped becomes elastic. Illustrative diagrams would help at this point. Consequently if a new technological breakthrough e.g. the development of robotics was to be brought to the production line then suddenly the labour force would find themselves in a much less strong position when it came to wage bargaining as a result of a change in the ped for labour. However, once the firm becomes more capital intensive and the shift in make-up of total cost changes, the ped of remaining workers may become a lot more inelastic. On the other hand if we are dealing with a firm that only employs a small number of labour units, and this makes up only a minimal fraction of total cost, the impact would be greatly reduced. Equally if the ped for the product is	**[20]**	A one sided answer can achieve a maximum of 10 marks if well analysed. A two handed approach short on analysis and/or lacking balance can gain up to a maximum of 13 marks. 15 marks can be awarded for a balanced analysed discussion that is lacking in overall judgement. For 16+ marks a candidate must offer balanced analysis and a clear evaluated judgement of the question set. NB If a candidate produces an answer that fulfils the requirements for a level 4 (a) mark and it is the best that could be expected given the examination time constraint, then FULL marks must be awarded. Analysis can be identified in 3 basic forms. i) Diagrammatic analysis. ii) Numerical analysis. iii) Analysis in prose form which makes use of terms and concepts contained in the Economist's toolkit, which clearly illustrates the direction and links in a chain of causation. It is important that analysis is clearly flagged up by the use of the L3 annotation. Without the evidence of at least some attempt at economic analysis, candidates can score only a maximum of 4 marks for knowledge and application on the b section of the essay question.

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			inelastic, or we are considering only a short time period then the impact of such a change in substitutability will be a lot less influential in elasticity terms. Clearly then in order to consider the extent to which the ease of factor substitution will impact on ped for labour we will need to look at examples on a case by case basis. Factor substitution has the potential to significantly change the ped for labour. However this is likely to be due to a change in technology which may take some time to come to fruition. In the shorter run therefore factor substitution may be less influential than we might at first think. **Level 4 (a) (16-20)** For a discussion that includes a judgement of the extent to which ease of factor substitution influences the price elasticity of demand for labour. The judgement must be clear as to the degree of influence factor substitution can have. **Level 4 (b) (11-15)** For a balanced discussion of factor substitution and the way it may or may not influence the price elasticity of demand. A discussion lacking balance should receive no more than 13 marks. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5-10)** For an analysis of how factor substitution can influence the price elasticity of demand. For 8+ marks there should be an		

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			in-depth analysis the impact of factor substitution. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4)** For an application of knowledge and understanding of how factor substitution can influence the price elasticity of demand. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive. **Level 1 (1-2)** For a knowledge of how factor substitution can influence the price elasticity of demand. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		

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4	(a)		**Analyse, using examples, how barriers to entry may determine the degree of competition in leisure markets.** Candidates might be expected to build up an answer along the lines of the example offered below. One area of leisure industry activity is the spectator sports market. The spectator sports industry covers a multitude of activities; amongst the most popular we could list are football, rugby, horse racing, cricket and tennis. These sub markets have very different legal and regulatory structures, but all display evidence of barriers to entry. A barrier is any obstruction, artificial or real, that would prevent a new firm entering an industry in pursuit of perceived abnormal profit. Common barriers to entry may include high sunk costs, e.g. advertising, high fixed capital costs e.g. maintenance of stadia, economies of scale e.g. bulk purchasing and patents or access to limited membership e.g. the Football League or the County Cricket Championship. Competition can be viewed in a number of ways, but most commonly in terms of the number of firms in the industry, the ease with which that number can change, and price and non-price competition. The most competitive market form an economist may consider is Perfect competition, however, this is clearly a theoretical model against which to judge the real world. In practise the most competitive systems would be Monopolistic competition and Contestable markets. The former being an industry made up of many firms with little or no barriers to entry and the latter can be a small number of suppliers but critically again with the absence of entry and exit barriers. The spectator sports industry has changed much in recent years and its promotion via television, especially pay TV, has raised its profile greatly, and its revenue earning capacity hugely. Consequently in some senses barriers to entry have become more formidable as the more successful	**[15]**	

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			teams receive a greater and disproportionate share of television income e.g. the top 2 Formula One teams, the top 4 Premiership football teams or the Grand Slam venues on the Tennis circuit. Consequently, these firms can invest a great deal more back into their respective sports and make it far more difficult for outsiders to break through the ever stronger barriers to entry now being created, eg branding, fixed capital investment, team/squad enlargement. On the other hand there still remains a great deal of competition on many levels lower down the pecking order within the top spectator sports market. There are another 88 football teams outside the top 4, Formula One is normally made up of at least 10 teams beside the top 2 contenders and Tennis tournaments abound throughout the world. Indeed sports which may be considered less high profile, remain spectator supported, particularly at major events e.g. athletics, hockey, snooker and swimming are extremely devoid of barriers. In summary barriers to entry clearly exist in the spectator sports industry but are perhaps more obvious in the high profile sectors than in the less popular sporting activities. These barriers limit effective competition, promote dominance by a few and move these markets towards a more oligopoly like structure. **Level 3 (9-15)** For an explanation of how barriers to entry may determine the degree of competition in the leisure industry. For a 13+ mark candidates must offer clear analysis of how barriers influence competition. **Level 2 (5-8)** For an application of knowledge as to how barriers to entry may determine the degree of competition in the leisure industry. <u>For a 7-8 mark candidates must offer a clear real</u>		Lack of barriers to entry increases the degree of competition in any market and is reflected by an absence of Long run profits. This can be analysed using the Monopolistic Competition market structure and/or the Contestable market model. To achieve a 13+ mark in depth analysis must be displayed using at least 2 separate market forms; one being competitive and one being less competitive due to high barriers to entry. Monopoly compared with Perfect Competition is totally acceptable as an approach. Monopolistic competition compared with Oligopoly is equally valid, as would be Contestable market with Monopoly or Oligopoly. An explanation of different barriers to entry without analysis regarding LR profits/losses can score a maximum of 8 marks.

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			world application. **Level 1 (1-4)** For knowledge and understanding of barriers to entry.		
4	**(b)**		**Using a leisure market of your choice, discuss the extent to which it may be considered to be an oligopoly.** The choice of industry is likely to come from the recommended areas of study, holidays and leisure travel, spectator sports, broadcasting and cinema admissions. However, any leisure industry example will be accepted. Candidates might be expected to build up an answer along the lines of the example offered below based on Premiership football. An oligopoly market is one dominated by a few firms who have a significantly high concentration ratio i.e. a high proportion of the total market share lies in the hands of just a handful of firms. In the case of Premiership football the top four teams that regularly appear to dominate the league, Manchester United, Liverpool, Arsenal and Chelsea may well be considered to fit this description. Between them they certainly have a significant share of the total revenue earned in the UK market, and each of them regularly appear in the top 10 money earning clubs in the world. They each provide a product that is in many senses generic, yet is so heavily branded it clearly provides evidence that significant non-price competition exists between the businesses. This is probably more important in the worldwide market for Premier League merchandise, replica shirts etc, than at home where partisan allegiances might play a more significant part. Barriers to entry into this top echelon may also be said to exist as continued success in the top division of the English league yields handsome financial rewards.	**[20]**	A one sided answer can achieve a maximum of 10 marks if well analysed. A two handed approach short on analysis and/or lacking balance can gain up to a maximum of 13 marks. 15 marks can be awarded for a balanced analysed discussion that is lacking in overall judgement. For 16+ marks a candidate must offer balanced analysis and a clear evaluated judgement of the question set. NB If a candidate produces an answer that fulfils the requirements for a level 4 (a) mark and it is the best that could be expected given the examination time constraint, then FULL marks must be awarded. Analysis can be identified in 3 basic forms. i) Diagrammatic analysis. ii) Numerical analysis. iii) Analysis in prose form which makes use of terms and concepts contained in the Economist's

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			These payments represent a significant proportion of the money television stations around the world pay to the Football Association who manages the league. This allows these top teams to buy the services of the best players, denying them to other teams, and consequently perpetuating their dominance. Year on year these top four then qualify for the equally lucrative European champions league, which becomes increasingly inaccessible to the rest of the clubs in the league and once again the barriers to entry grow. Surely the case for considering Premiership football as an oligopoly market has solid foundations. The top 4 are the biggest earners repeatedly and the most successful on the field. On the other hand there are 16 other teams in the division who could grow their businesses through success on and off the field. Also each year due to promotion and relegation 3 new teams join the league and 3 exit; consequently there is the potential for change to occur especially over a number of years. The rise and fall of Wimbledon FC being an exaggerated example of the potential to break through perceived barriers. Certainly there is no convincing evidence that any of the top 4 clubs are making abnormal profits as the Chelsea FC final accounts of the last couple of seasons will testify. The apparent willingness of clubs to immediately re-invest funds into playing staff purchase and salaries is testament to the rejection of the idea that profit maximisation is the main goal of these top clubs. Thirdly, in recent times, there is evidence that price competition is beginning to enter the market, with discount tickets on offer at an increasing number of Premiership grounds. Admittedly these are less apparent at the homes of the top 4 teams but even there signs are that to attract support to matches against less popular opposition, lower ticket prices are on offer. To conclude we have conflicting evidence as to the extent to which Premiership football has become an oligopoly market.		toolkit, which clearly illustrates the direction and links in a chain of causation. E.g. in this case reference to concentration ratios would be considered valid. It is important that analysis is clearly flagged up by the use of the L3 annotation. Without the evidence of at least some attempt at economic analysis, candidates can score only a maximum of 4 marks for knowledge and application on the b section of the essay question.

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			In theory with sporting success any team could rise up the league and challenge the top 4 clubs. The changing economic climate of the present time may even lend itself more favourably to such an occurrence. However, the hard evidence would appear to support the view that the market is increasingly dominated by the top 4 clubs. Only once since the 1992/93 season has the league been won by a team outside the top 4 clubs, indeed since the 2000/2001 season only once has a team from outside finished in the top three places, Newcastle in the 02/03 season. This surely illustrates the increasing stranglehold this oligopoly has gained on the market. They have secured financial dominance and won support on the world stage due to the highly successful marketing of the league. Abnormal profits are not necessarily in evidence, but that could just be due to the curious nature of the product and the apparent reluctance of the owners of these clubs to follow their natural entrepreneurial instincts when it comes to maximising profits. In football the top 4 are getting richer and more dominant in terms of success at the game, if not in terms of profitability, due to their reluctance to take cost of production seriously. **Level 4 (a) (16-20)** For a discussion that includes a judgement of the extent to which the chosen market may be considered oligopolistic. The judgement must clear as to the degree to which the market is an oligopoly. **Level 4 (b) (11-15)** For a balanced discussion of a chosen leisure market re the evidence of oligopoly activity. A discussion lacking balance should receive no more than 13 marks. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject		

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			matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5-10)** For an analysis of how the chosen market may or may not be considered an oligopoly. For 8+ marks there should be an in-depth analysis of the market in terms of its competitive nature or otherwise. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4)** For an application of knowledge and understanding of the market structure in the chosen leisure market . Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive. **Level 1 (1-2)** For a knowledge of the market structure in the chosen leisure market. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		
			Total	**[60]**	

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THIS IS A NEW SPECIFICATION

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F583

Candidates answer on the Question Paper

OCR Supplied Materials:
None

Other Materials Required:
- Calculators may be used

Friday 29 January 2010
Afternoon

Duration: 2 hours

OCE/18004

Candidate Forename		Candidate Surname	

Centre Number						Candidate Number				

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.
- The spaces should be sufficient for your answers but if you require more space use the lined pages at the end of this booklet and number your answers carefully.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be awarded marks for the quality of written communication in Section B.
- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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2

CARRY ON CAMPING

Increased Demand for UK Campsites

Camping is a leisure activity that millions of UK holidaymakers have pursued for decades. It can be carried out in many ways, from the most basic two-man tent pitched on an isolated farm field in the Lake District to a luxurious motor home or static caravan costing tens of thousands of pounds. In 2009 the camping holiday industry was looking forward to a bright future, if certain news reports were to be believed.

Tightening financial conditions in the UK have resulted in a boom for the camping holiday industry. The BBC reports that Welsh camping sites have seen healthy bookings, and sales of camping equipment have remained strong despite the current financial squeeze. The chairman of the Wales Tourism Alliance said that there were a number of factors explaining the popularity of camping, including the increased market for environmentally-friendly holidays and a preference for short breaks.

According to the owner of a campsite in South Wales, up to 100 customers a day are turned away. Other campsites have seen similar trends. A farmer who owns a small site said, "We've got 60 per cent more campers this year and we've added more room for them. We've put it down to the credit crunch."

In addition, some campsites have seen families booking longer breaks. "The last three or four years we've been running it, it's been one or two or three nights, but this last few weeks we've been taking families for a week" said another campsite owner.

28/07/2008 Best Western editorial news article

Camping Firms Reveal 'Excellent Sales'

Two major camping companies have revealed high performances during the summer of 2008. Eurocamp and Keycamp both enjoyed healthy occupancy, with increases in year-on-year statistics, despite the latter reducing capacity by 5%.

The firms, which in total hold around 65% of the European tour operator market for pre-erected tents and mobile homes, took more than 500,000 tourists on camping breaks to the continent and to Florida.

Robin Parry, deputy managing director (MD) of Holidaybreak's camping division, claimed the sector had seen "excellent sales". He added that the factors driving this increased demand were families looking for value for money and a guaranteed campsite.

10/11/2008 UK Campsite message board

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Easter Camping Bonanza

Almost a third of UK holidaymakers have chosen to stay at campsites or holiday parks during the Easter break, according to a PricewaterhouseCoopers' (PWC) poll. The PWC mobile phone poll texted more than 1,000 consumers on their plans for the Easter weekend. The number of respondents taking camping and holiday park breaks increased by 12% year on year to 29% in 2009. This compared to a fall in the number of respondents staying in a hotel over Easter from 35% last year to 31% this year. The figures back up a recent trend for holidaymakers to book UK breaks in order to economise during the recession. PWC travel director Ian Oakley-Smith said, "At the expense of budget airlines, this Easter is seeing a definite return to traditional British holidays. The weakening of the pound against the euro, ease of travel and perceived value for money deals that UK-based holiday camps offer have caused this sudden rise in popularity. The desire to holiday abroad during April has halved to only 2% of all respondents."

14/04/09 PricewaterhouseCooper poll

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Section A

Answer **all** questions from this section

1 Static caravan holidays are one sub-market in the camping holiday industry.

(a) Using the information provided, identify **two** other sub-markets within the camping holiday industry.

1 .....

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2 .....

..... **[2]**

(b) Explain **two** likely reasons for the increase in demand for camping holidays in the summers of 2008 and 2009.

1 .....

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2 .....

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(c) Using the information provided, comment on the extent to which **one** identified trend is likely to continue in the future.

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..... **[5]**

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(d) Analyse the impact an increase in the capacity of campsites may have on the UK camping holiday industry.

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..... **[4]**

(e) **(i)** State **two** characteristics of a contestable market.

1 .....

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2 .....

..... **[2]**

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(ii) Discuss the extent to which the camping holiday industry may be considered an example of a contestable market.

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Section B

Answer **one** question from this section

2 **(a)** Analyse using examples how the immobility of labour may lead to labour market failure. **[15]**

(b) Discuss the extent to which government intervention can reduce labour market failure caused by the immobility of labour. **[20]**

3 **(a)** Analyse how, in theory, wages are determined in a competitive labour market. **[15]**

(b) Discuss the extent to which the competitive labour market model is useful and relevant in explaining wage determination within contemporary real world labour markets. **[20]**

4 **(a)** Analyse the effects on the UK labour market of an increase in the National Minimum Wage. **[15]**

(b) Discuss the extent to which an increase in the National Minimum Wage is likely to reduce poverty. **[20]**

Section B Total: [35 marks]

Paper Total: [60 marks]

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Section B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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Additional answer space. Any answers written in this space must be clearly numbered.

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RECOGNISING ACHIEVEMENT

GCE

Economics

Advanced GCE **A2 H461**

Advanced Subsidiary GCE **AS H061**

Mark Schemes for the Units

January 2010

HX61/MS/R/10J

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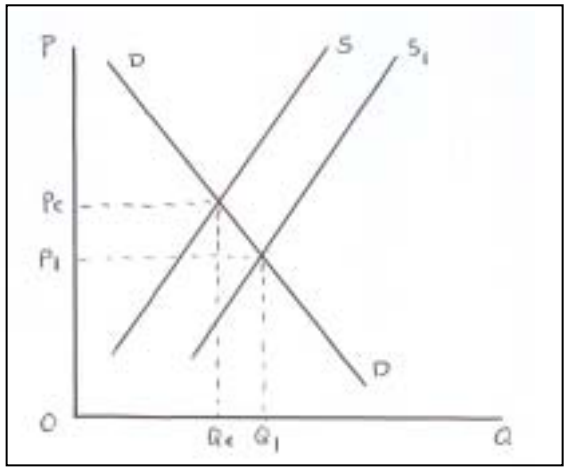
F583 Economics of Work and Leisure

Section A					
Question			**Expected Answer**	**Mark**	**Rationale**
1			**Static caravan holidays are <u>one</u> sub market in the camping holiday industry.**		
	(a)		**Using the information provided, identify <u>two</u> other sub markets within the camping holiday industry.** Any two reasonable suggestions acceptable for one mark each. Tenting (1), Caravanning (1) the Mobile Home market (1), Ready erected tents (1), Camping equipment (1), 'Environmentally friendly holidays' (1), short term breaks (1).	**[2]**	Candidates do not need to mention mobile caravans to gain a mark. Candidates may offer two valid sub-markets within the same section of the response – e.g. tents and caravans
	(b)		**Explain <u>two</u> likely reasons for the increase in demand for camping holidays in the summers of 2008 and 2009.** 1 mark for a correct statement plus 1 mark for an appropriate explanation. A fall in the real cost of camping (1) would encourage an increase in demand for this type of holiday as it is financially more accessible for more people. (1) An increase in the price of alternative forms of holiday e.g. hotels home and abroad (1) would lead to a shift in demand for camping. (1) The general fall in Incomes, (1) may cause an increase in demand for the cheaper holiday alternative that camping can provide. (1) A favourable change in taste in favour of camping.(1) This may be due to a change in fashion, successful advertising, consideration of the environment or a greater appreciation of the benefits such a healthy active holiday can provide. (1) A weakening of the pound against the euro (1) may lead to an increase in demand for camping (1).	**[4]**	We expect candidates to highlight a **change** in an element of the demand function – we will accept substitutes and compliments as two separate reasons. The reference to the increase in demand for camping may be implicit and does not necessarily need to be explicitly stated. Do not give credit for two examples of one element of the demand function. E.g. two substitutes or two references to income.

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Question			Expected Answer	Mark	Rationale
	(c)		**Using the information provided, comment on the extent to which <u>one</u> identified trend is likely to continue in the future.** Candidates may select anyone of a number of trends reflected by the data. The trends described in the material presented spell good news for the camping industry as a whole. Not only do campsite owners and camping holiday organisers benefit from such trends but also the materials suppliers of related equipment are likely to benefit e.g. tent makers, caravan producers, equipment, manufacturers etc. If the UK economy continues to suffer economic recession it is likely that this growth trend will continue. However, holiday maker's tastes are fickle, and the UK weather could have a serious part to play. Camping in good weather is enjoyable, healthy and very conducive to successful family holidays. Cold wet summers of recent experience could soon reverse the trend, even if the economy remains weak. Should the economy recover quickly the domestic camping industry will have to have done much to improve its image if it is to keep its new found converts. Otherwise this temporary favourable change in tastes could quickly be reversed. 1 to 2 marks for a one sided answer suggesting that camping is or is not likely to continue to enjoy increasing popularity. 3 marks for a one sided answer with an evaluative comment. 4 to 5 marks if the above is offered with some qualification of the statement and/or makes a clear judgement regarding the extent to which the identified trend is likely/not likely to continue.	**[5]**	Identify a trend, look for supporting evidence from the information provided and an evaluative comment as to the likelihood (or otherwise) of this trend continuing. For 4 marks the candidate is likely to offer **a** point of qualification of the statement, but will not develop this point. For example, “the pound may strengthen in the future”. For 5 marks, there must be a development of **a** point of qualification.

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Question			Expected Answer	Mark	Rationale
	(d)		**Analyse the impact an increase in the capacity of campsites may have on the UK camping holiday industry.** A simple demand and supply diagram, correctly labelled showing a rightward shift in supply of campsite capacity can score up to 2 marks. A poorly drawn diagram would score 1 mark. An explanation of the potential impact on the UK camping industry will secure up to a further three marks subject to the overall maximum of 4 marks. For example, a rightwards shift/increase in supply (1) due to an excess of supply over demand (1) leads to a fall in price (1) and an increase in the quantity bought and sold (1). The increase in capacity should bring about an increase in the opportunity to camp in the UK (1). The increase in supply may put downward pressure on prices (1) and lead to more demand (1). The increase in popularity should lead to an increase in demand for labour thus increasing employment opportunities (1). Higher profits may be available to entrepreneurs in the UK holiday market (1). This may lead to an increase in investment (1). An increase in demand for complimentary goods (1).  	[4]	If candidates label the curves as AD and AS then the diagram is worth a maximum of 1 mark (assuming the correct shift of the supply curve). Full marks may be achieved without a diagram.

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Question			Expected Answer	Mark	Rationale
	(e)	(i)	**State two characteristics of a contestable market.** 1 mark each for any two characteristics: • no brand loyalty • no/low barriers to entry • no/low barriers to exit • no long-run abnormal profits/supernormal profits • good knowledge of existing technology • no significance to the number of firms in the market • susceptible to hit and run tactics • no/low sunk costs • long run economic efficiency • allocative efficiency • productively efficiency	**[2]**	Do **NOT** accept: • a stated number of firms • differentiated products • homogenous products • reference to concentration ratios • non-price competition • price rigidity • price takers. Candidates may offer two valid characteristics within the same section of the response e.g. “low/no barriers to entry/exit”. This is worth 2 marks.

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Question			Expected Answer	Mark	Rationale
		(ii)	**Discuss the extent to which the camping holiday industry may be considered an example of a contestable market.** The camping industry as a whole displays a considerable degree of evidence to suggest that it may be considered quite contestable. The industry appears relatively easy to enter, there do not appear to be a great many barriers to entry especially when starting an operation e.g. many farmers in recent years have looked to camping as an alternative extra source of income. The amount of sunk cost necessary for such an undertaking appears to be small, and consequently should a particular firm exhibit signs of making abnormal profits; one imagines firms outside the market would quickly enter to compete away such extra gains. On the other hand article two does suggest in the sub-market of ready erected tents, two firms dominate; 65% of the market shared by Eurocamp and Keycamp. Clearly this is strong evidence of a Duopoly. Do they attempt to erect barriers through advertising campaigns? It is difficult to imagine that barriers to entry due to scale economies do not exist in the manufacture of some camping equipment goods or perhaps the production of caravans and mobile homes. We have no evidence as to the structure of other sub-markets within the industry. It may be that there are chains of campsites all owned by one firm thus significantly reducing the amount of competition in the market. On the basis of the evidence provided above, the market would appear to be displaying more evidence to support the view that this is a market that is tending towards a contestable market as an industry as a whole. However, in a number of sub-markets this is not necessarily the case. Without more evidence to confirm, one must be careful of making too positive a judgement in the absence of such information.	[8]	

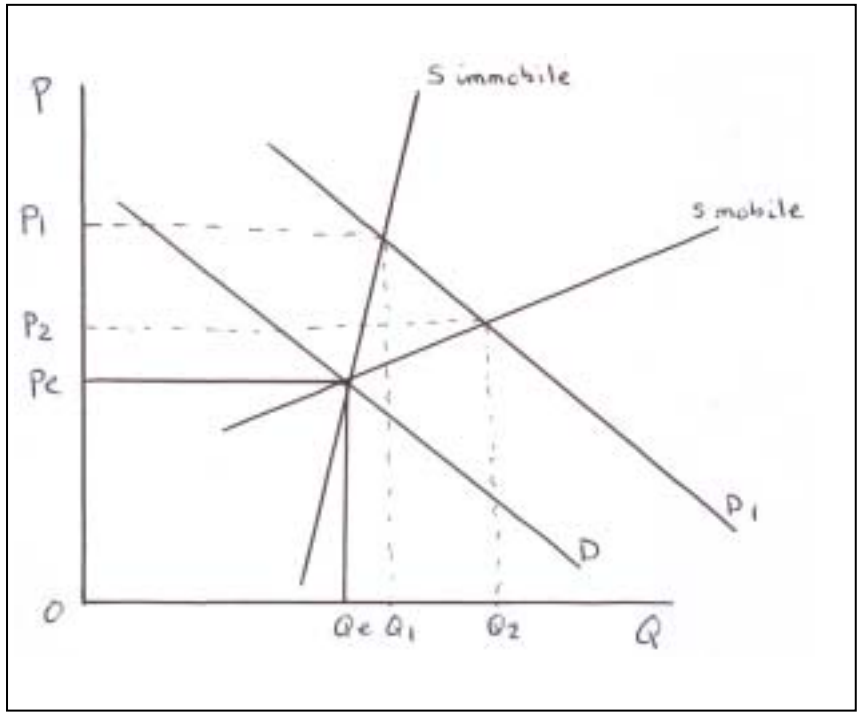
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Question			Expected Answer	Mark	Rationale
			1 to 2 marks for a one sided approach. 3 marks maximum for a one sided approach with a judgement that the camping holiday industry is/is not a contestable market. 3 to 4 marks if the answer is clearly two sided with no judgement made. 5 to 8 marks if the answer offers discussion followed by a clearly evaluative judgement as to the extent to which the camping industry as a whole may be considered to be an example of a contestable market.	**[8]**	

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Section B					
Question			**Expected Answer**	**Mark**	**Rationale**
2	**(a)**		**Analyse using examples how the immobility of labour may lead to labour market failure.** Labour immobility comes in two main forms, one is geographical immobility and the other is occupational immobility. Candidates are then likely to go on to explain in depth these two different types. Labour market failure occurs when the market forces of supply and demand do not produce an efficient allocation of resources. Evidence of such failure occurs in a number of forms and for a number of reasons and immobility is one of those reasons. This can be illustrated using supply and demand analysis. Markets which are experiencing an increase in demand for labour will face a supply curve that is less elastic than otherwise would be the case in the absence of mobility problems (this is a key point of analysis). Consequently wages will be pushed to a higher level than would otherwise be the case and costs to firms will increase causing potential productive inefficiency. **Level 3 (9-15 marks)** For an explanation of how immobility may lead to market failure in the labour market. **For a 13+ mark candidates must offer clear analysis of both types of immobility.** 10 maximum if candidates only consider one type of immobility. **Level 2 (5-8 marks)** For an application of knowledge as to how immobility may lead to market failure in the labour market.. For a 7+ mark candidates must offer a clear real world application. **Level 1 (1-4 marks)** For knowledge and understanding of how immobility may lead to market failure in the labour market or for a simple explanation of geographical or occupational immobility.		

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Section B					
Question			Expected Answer	Mark	Rationale
				[15]	

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Question			Expected Answer	Mark	Rationale
	(b)		**Discuss the extent to which government intervention can reduce labour market failure caused by the immobility of labour.** This question can be tackled in a number of ways adopting a wide or narrow focus. As long as the required assessment objectives are covered, either approach is acceptable. Candidates might be expected to build up an answer along the lines of the example offered below. One or a number of types of government intervention can be explained and analysed. For example, government measures to achieve a more flexible labour force, government training initiatives, regional policy and measures to overcome information failure. The policies chosen for illustration must be analysed and then questioned as to their effectiveness, perhaps using some illustrative evidence from the real world. This approach would satisfy the need for a balanced approach to the answer. Finally candidates should directly address the question of effectiveness of policy and are likely to draw a conclusion that intervention can go some way to alleviating problems caused by immobility of labour. However, in a dynamic economy it is difficult for labour to keep pace with the ever changing requirements of the labour market and perhaps the best steps taken by government are those to improve labour flexibility. **Level 4 (a) (16-20 marks)** For a discussion that includes a judgement of the extent to which government intervention can reduce market failure caused by immobility of labour .The judgement must be clear as to the degree to which government intervention can reduce market failure caused by immobility.	[20]	

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Question			Expected Answer	Mark	Rationale
			Level 4 (b) (11-15 marks) For a balanced discussion of government intervention to reduce market failure caused by immobility of labour. **A discussion lacking balance should receive no more than 13 marks.** Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5-10 marks)** For an analysis of how government intervention can reduce market failure caused by immobility of labour. For 8+ marks there should be an in-depth analysis of at least one case of active involvement targeting a form of immobility. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4 marks)** For an application of knowledge and understanding of government intervention to reduce market failure caused by immobility of labour. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.		A balanced discussion with a limited focus can score 13 marks (i.e. equal to a good unbalanced answer). 11-12 marks for a one sided approach with only simple analysis and evaluative comment. A maximum of 13 still applies to a good one sided, analysed and evaluative response.

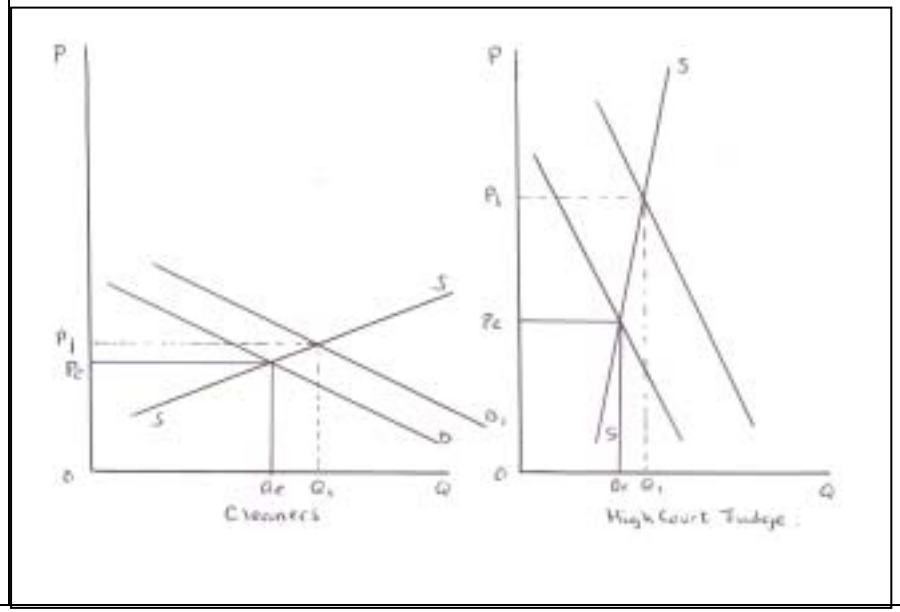
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Question			Expected Answer	Mark	Rationale
			Level 1 (1-2 marks) For a knowledge of government intervention to reduce market failure caused by immobility of labour . Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		

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Question			Expected Answer	Mark	Rationale
3	(a)		**Analyse how, in theory, wages are determined in a competitive labour market.** Candidates will be expected to explain a competitive labour market and analyse how wages are determined in such a market. Simple demand and supply analysis will be sufficient to achieve a level 3 score. However, in order to gain top marks reference to marginal productivity theory is desirable. There will be ample opportunity for candidates to display their skills of using market diagrams. Candidates might be expected to build up an answer along the lines of the example offered below. In a competitive labour market, the demand for and the supply of labour play key roles in determining wages. Wages are likely to be high when demand is high and inelastic and supply is low and inelastic. In contrast wages are likely to be low when demand is low and elastic and supply is high and elastic. Clearly a diagram opportunity does arise here and an occasion when candidates may illustrate using real world examples eg cleaners and high court judges. Then analysis may be taken further to consider changes in demand and supply. More sophisticated analysis may consider demand or supply in greater depth e.g. the marginal productivity theory applied to the demand for labour or income and substitution effects on the supply of labour.	**[15]**	

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Question			Expected Answer	Mark	Rationale
			Level 3 (9-15 marks) For an explanation of how, in theory, wages are determined in a competitive labour market. For a 13+ mark candidates must offer clear analysis using the marginal productivity theory of how wages are determined in a competitive labour market. **Level 2 (5-8 marks)** For an application of knowledge of how wages are determined in competitive labour markets. For a 7+ mark candidates must offer a clear real world application. **Level 1 (1-4 marks)** For knowledge and understanding of how competitive labour markets work.  		Reference to the individual supply curve is not deemed relevant analysis and thus should be given no credit. The focus is on MARKET supply.

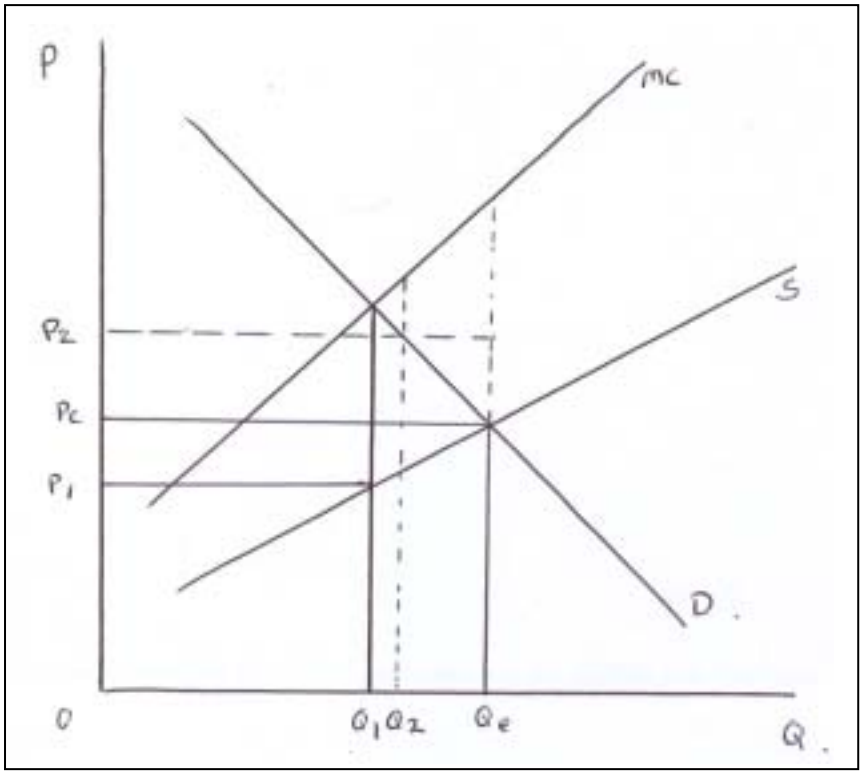
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Question			Expected Answer	Mark	Rationale
	(b)		**Discuss the extent to which the competitive labour market model is useful in explaining wage determination within contemporary, real world, labour markets.** A good discussion of the question in point would probably bridge the content of part a) into part b) without wasteful repetition of the content of part a). The real world scenarios that candidates choose to consider are of course of their own choice, however the suggested approach is one that easily lends itself to a display of the appropriate skills required for a top level 4 mark. In the contemporary real world markets for labour tend to be less competitive than those referred to in section a). Indeed one extreme case might be a market in which a monopsony employer is negotiating with a monopoly trade union. Using an appropriate diagram the candidate could then offer a sophisticated analysis of the possible outcome of negotiation between the two parties. The balance of power in such situations being likely to determine how close wage settlements eventually arrive at a level closer to the upper or lower limits of negotiation. An alternative approach might be the introduction of a minimum wage above the equilibrium which will then interrupt the operation of a competitive labour market. Candidates will then go on to consider to what degree this and other or alternative scenarios depart from the competitive model, and what that means for its usefulness in the first place. A final conclusion evaluating the degree to which the model is useful in 2010 should then be made.	**[20]**	

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Question			Expected Answer	Mark	Rationale
			Level 4 (a) (16-20 marks) For a discussion that includes a judgement of the extent to which the competitive model works as an explanation. The judgement must be clear as to the degree of usefulness of the model. **Level 4 (b) (11-15 marks)** For a balanced discussion of the usefulness of the model. **A discussion lacking balance should receive no more than 13 marks**. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5-10 marks)** For an analysis of how useful the model can be when applied to the real world. For 8+ marks there should be an illustration of a more sophisticated use of the model, not a repeat of the model used in the first section. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. **Level 2 (3-4 marks)** For an application of knowledge and understanding of how the competitive model can be used. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.		A balanced discussion with a limited focus can score 13 marks (i.e. equal to a good unbalanced answer). 11-12 marks for a one sided approach with only simple analysis and evaluative comment. A maximum of 13 still applies to a good one sided, analysed and evaluative response.

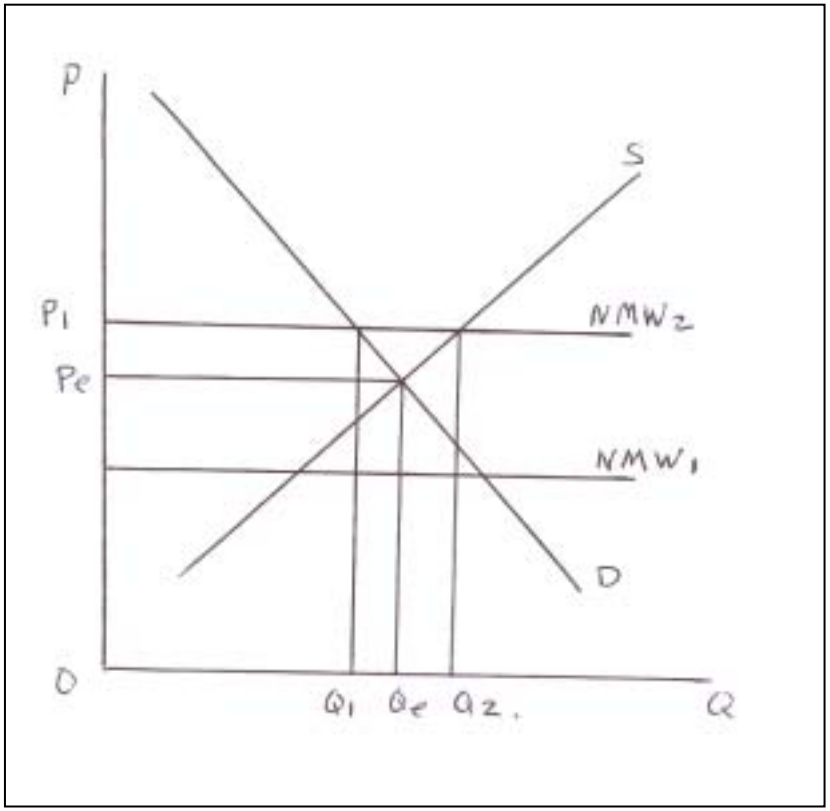
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Question			Expected Answer	Mark	Rationale
			Level 1 (1-2 marks) For a knowledge of how the competitive model can be used. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.  		

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Question			Expected Answer	Mark	Rationale
4	(a)		**Analyse the effects on the UK labour market of an increase in the National Minimum Wage.** Candidates will be expected to produce an accurate diagram illustrating the impact of the national Minimum Wage (NMW) on the UK labour market. Better answers will provide a full and accurate explanation and clearly illustrate that the NMW will only disturb the operation of the market mechanism if it is imposed above the existing equilibrium. Another approach or additional piece of analysis that may be considered is the impact that the higher NMW may have on worker motivation and consequently worker productivity and hence the MRP. This rightward shift in demand may then allow the payment of higher wages and the same or even an enhanced level of employment, rather than the more simplistic conclusion that the NMW will inevitably lead to unemployment. Reference to actual UK NMW rates will help to secure application marks. **Level 3 (9-15 marks)** For an explanation of how, the minimum wage will affect the UK labour market. For a 13+ mark candidates must offer an analysis of an **increase** in the NMW as opposed to merely analysing the imposition of a NMW.	[15]	For up to 12 marks candidates are likely to offer a clear analysis using the standard diagram showing that the NMW will only disturb the market mechanism is imposed **ABOVE** the market equilibrium. Candidates **MUST** consider BOTH demand and supply effects for 12 marks.

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Question			Expected Answer	Mark	Rationale
			Level 2 (5-8 marks) For an application of knowledge of how the minimum wage will affect the UK labour market. For a 7+ mark candidates must offer a clear real world application to the UK labour market. **Level 1 (1-4 marks)** For knowledge and understanding of how the NMW affects the labour market.  		Max of 6 marks if there is valid application of knowledge, but no reference is made to the UK labour market.

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Question			Expected Answer	Mark	Rationale
	(b)		**Discuss the extent to which an increase in the National Minimum Wage is likely to reduce poverty.** Candidates may tackle this question in a number of ways, no single approach is necessarily better than any other. What is crucial is that candidates demonstrate the necessary skills that are required to secure marks in the relevant level. One approach may be to start by considering what is meant by poverty. A distinction can be made between absolute and relative poverty. This must then be applied to the question. Next it would seem sensible to consider the impact of a rise in the NMW. Clearly this will only benefit those in employment, and on wages below the newly established level. Also the size of the increase of the NMW is also of considerable significance that may be open to discussion. Analysis may be in the form of graphical presentation, perhaps showing supply and demand curves of differing elasticity, and changes in NMW of differing amounts. This in itself may offer an opportunity for discussion of the policy effectiveness. An additional or alternative approach may consider that this policy will have no immediate impact on the registered unemployed, the retired, those below the age of work or others who are part of the economically inactive workforce. In other words the potential impact on the most disadvantaged in the population may be restricted to only a fraction of the total considered to be living in conditions of poverty. Alternative or additional policy options may be considered e.g. introduction or increase in supplementary benefit allowances, Increase in base rate tax thresholds, subsidised housing, food tokens or any number of other possible approaches to removing poverty from our economy.	**[20]**	

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Question			Expected Answer	Mark	Rationale
			A final concluding section must make a clear judgement as to the effectiveness of the NMW in tackling poverty issues, be they absolute or relative. **Level 4 (a) (16-20 marks)** For a discussion that includes a judgement of the extent to which the NMW is likely to reduce poverty. The judgement must be clear as to the degree of usefulness of the policy. **Level 4 (b) (11-15 marks)** For a balanced discussion of the usefulness of the NMW in reducing poverty. **A discussion lacking balance should receive no more than 13 marks**. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. **Level 3 (5-10 marks)** For an analysis of how NMW is likely to reduce poverty. For 8+ marks there must be a clear explicit analysis of how the NMW is likely to reduce poverty. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.		A balanced discussion with a limited focus can score 13 marks (i.e. equal to a good unbalanced answer). 11-12 marks for a one sided approach with only simple analysis and evaluative comment. A maximum of 13 still applies to a good one sided, analysed and evaluative response.

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Question			Expected Answer	Mark	Rationale
			Level 2 (3-4 marks) For an application of knowledge and understanding of how the NMW is likely to reduce poverty. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive. **Level 1 (1-2 marks)** For a knowledge of how the NMW is likely to reduce poverty. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.		

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