

OCR A-LEVEL ECONOMICS • H460

ECONOMICS



EXAM QUESTION PACK

THE LABOUR MARKET

SCORE

/227

PERCENTAGE

%

STEMUP

These questions belong to OCR, not to us.

The examination questions, mark schemes and examiner comments in this pack were written and published by OCR. They are past assessment materials, reproduced here so that students can revise from them.

What we do not own

STEMUP is not affiliated with OCR and does not own, and makes no claim to own, any of the question, mark scheme or examiner report material in this pack. OCR has not endorsed, approved or been involved in the production of it. OCR and the qualification titles used here belong to their respective owners and appear for identification only.

Where to find the originals

OCR publishes its past papers, mark schemes and examiner reports free of charge. Always check the current specification at ocr.org.uk before you revise, because content and wording can change between series.

If you hold the rights to any material in this pack and would like it amended or removed, contact admin@stemup.co.uk and we will act on it.

- 1 * In April 2016 the UK National Minimum Wage for those aged 25 and over was increased by over 7% from £6.70 per hour to £7.20 per hour. It is now called the National Living Wage.

Evaluate, using an appropriate diagram(s), the impact on an economy of an increase in the minimum wage.

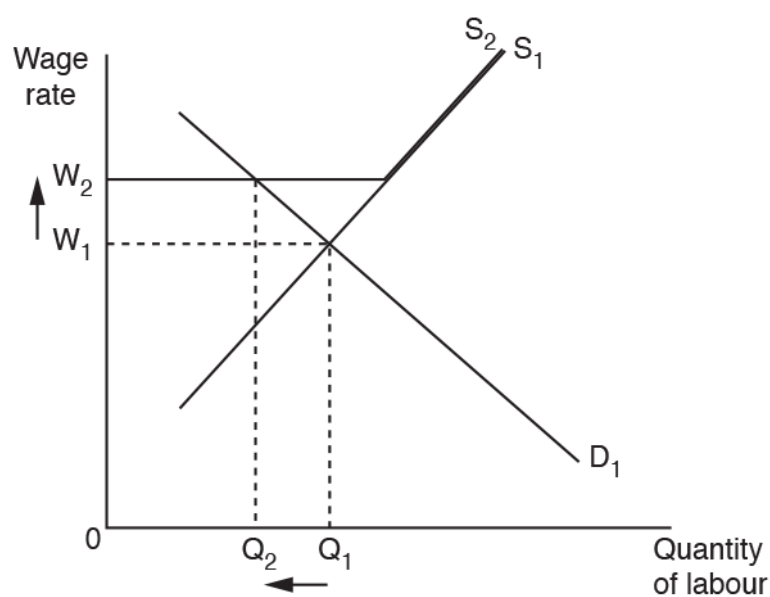
Blank lined paper for writing.

Blank lined paper for writing.

Handwriting practice lines consisting of 20 horizontal dashed lines.

[25]

2 Which of the following is illustrated in the diagram below?



- A A monopsonist employer acting as the monopoly buyer of labour
- B A reduction in the National Minimum Wage
- C A trade union successfully engaging in collective bargaining
- D Workers emigrating to take up higher paid jobs abroad

Your answer

[1]

3 Which change will make the wage elasticity of demand for labour more elastic?

- A Demand in the product market becomes more price inelastic
- B Technological advancement enables greater capital-labour substitution
- C The labour force becomes more occupationally mobile
- D The proportion of labour costs in total costs decreases

Your answer

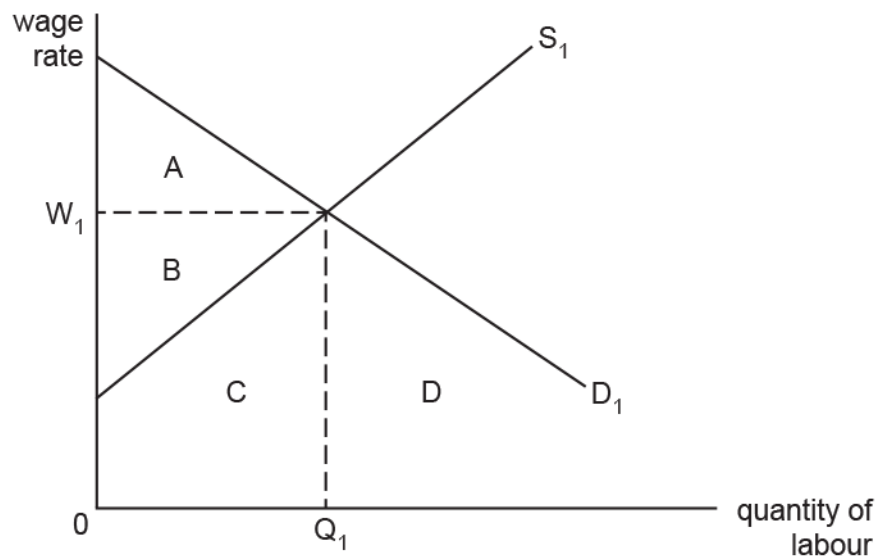
[1]

4 Please refer to insert **H460-03 June 2017, Housing**, which can be downloaded separately and is also included with Question 31.

Using the data from Fig. 1.1, compare what has happened to house prices and average earnings between 2000 and 2014.

[2]

5 In the diagram below, which area represents transfer earnings?



- A Area A
- B Area B
- C Area C
- D Area D

Your answer

[1]

6 The proportion of the working age population in the labour force increased from 76.8% to 78.4% between 2006 and 2016 in the UK. What would have increased as a result of this change?

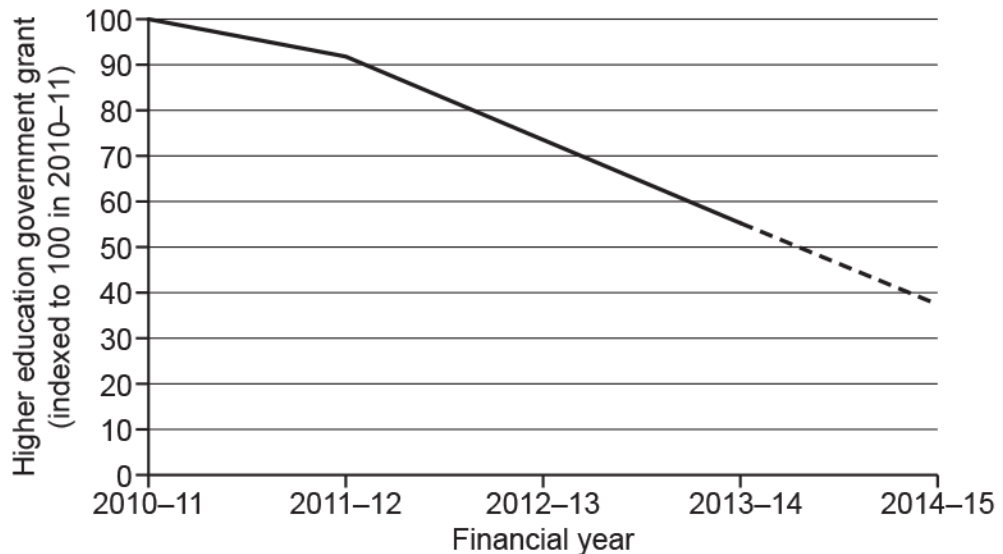
- A Dependency ratio
- B Employment rate
- C Participation rate
- D Replacement ratio

Your answer

[1]

The proportion of university education provided by the public sector and the private sector varies throughout the world. Most UK universities are generally considered to be in the public sector. In 2017, there were only five private sector universities in the country. The difference between public sector and private sector universities, however, is changing. This is the result of a shift in the funding of higher education, particularly in England. Universities are obtaining less of their income from government financed teaching grants and an increasing proportion from tuition fees. Fig. 1 shows how the amount of government spending on higher education has fallen in recent years.

Fig. 1 – Spending on higher education government grant



Note: Figure for 2014-15 was a predicted figure. Figures are in real terms, adjusted for inflation using the GDP deflator.

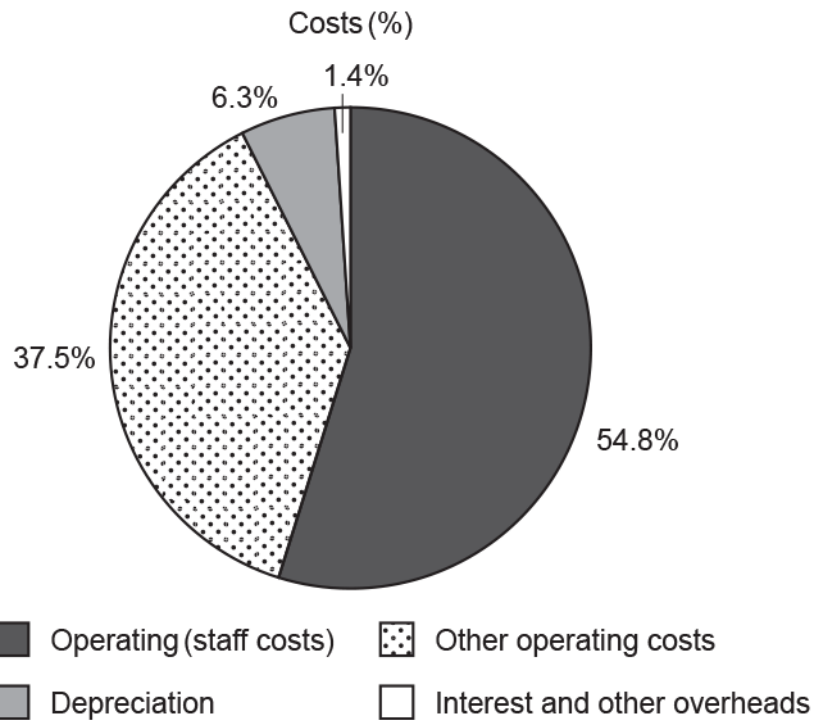
Tuition fees were introduced in 1998 at a maximum of £1,000 a year. By 2017, these had risen to a maximum of £9,250 for UK and EU students studying in England. Most universities charge this maximum annual fee. In October 2017, the government announced that it was freezing tuition fees at £9,250 instead of increasing them in line with inflation and raising the student loan repayment threshold from £21,000 to £25,000. Most students would like the government to maintain the freeze for some time or even scrap tuition fees altogether.

Some A Level students do not gain the grades needed to take up university places. In other cases, however, it is tuition fees which discourage them from applying to university. These students are concerned about future debt levels and value for money. The average pay for university graduates is higher than that for non-graduates. Future earnings, however, vary according to the subject studied, university attended and job gained after graduation. Currently the highest earning post graduates tend to have been students of medicine, veterinary science,

economics and engineering. While the lowest earners are found to be former students of English Literature, communication, agriculture and creative arts. A Level pupils are also aware that the learning experience varies between courses and universities, with some undergraduates complaining about lack of contact hours and high numbers of students in seminar groups.

25 While a limit on tuition fees may be welcome to many students, universities are concerned about the measure. They are worried that if they are not able to charge higher tuition fees and if they do not get more funding from the government, they will struggle to cover their costs. Universities' operating costs vary with the number of students they teach. Fig. 2 shows a breakdown of the total cost of £31.2 billion incurred by UK universities in 2014–2015 when they were educating
30 2.2 million students.

Fig. 2 – The composition of the total cost of UK universities 2014–2015



The cost of providing degree courses varies between subjects and universities. It is, for example, more expensive to provide engineering courses than English Literature courses. The University of Cambridge, for instance, spends more per student than the University of Bedfordshire.

35 The amount spent on education for people above school age (tertiary education), includes spending on degree courses and vocational courses. Such education provides a range of benefits not only to those who undertake the courses but also to others. Tertiary education increases a country's output and the productivity of its workers. UK universities are also creating an increasing number of spin-off companies which create new jobs.

Fig. 3 shows how the proportion of people of two different age ranges who had completed tertiary education varied in selected countries in 2016, as well as average income in those countries.

Fig. 3 – The proportion of people who had completed tertiary education in selected countries in 2016

Country	25–34 year olds who completed tertiary education	55–64 year olds who completed tertiary education	Average income (GDP per head in US\$) 2016
Canada	60.6	46.2	42 200
Germany	30.5	26.3	42 000
Japan	60.1	39.7	39 100
New Zealand	43.4	28.2	39 400
South Korea	70.0	19.7	27 600
United Kingdom	52.0	37.6	39 900
United States of America	47.5	41.9	57 500

Please read the extract above or refer to insert H460-01 June 2018, Who should pay?, which can be downloaded separately.

- (i) Explain whether the information in Fig. 3 about average income and about 25–34 year olds who had completed tertiary education shows the expected relationship between the two.

[2]

- (ii) Explain, using information in Fig. 3, which country is likely to have experienced the lowest relative increase in occupational mobility over the last thirty to forty years.

[3]

8 * In January 2016 junior doctors were planning to strike after pay negotiations with their employer, the National Health Service, had failed to produce a satisfactory outcome.

Evaluate, using an appropriate diagram(s), the impact of a monopsonist employer, such as the National Health Service, on the market for highly skilled labour.

Blank lined paper for writing.

Handwriting practice lines consisting of 20 horizontal dashed lines.

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

[25]

The UK labour market has experienced both a large increase and significant changes in the past 20 years. Data published in the UK's Labour Force Survey in October 2017 shows employment continuing to rise and unemployment falling, as seen in Fig. 1.

Fig. 1 – UK labour market statistics for June to August 2017

	Number ('000)	Change on previous quarter ('000)	Change on previous year ('000)
Employed	30923	109	363
Unemployed	1418	–63	–224
Economically Inactive (Aged 16–64)	8812	–17	–13

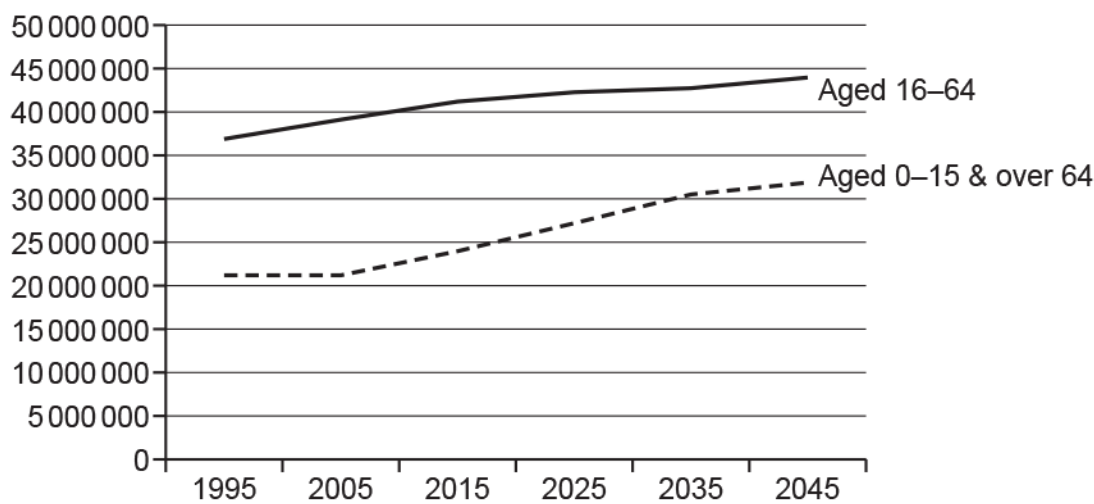
Source: ONS

The unemployment rate was at a 42-year low, although there was still some slack in the labour market. Other evidence in the October 2017 data included:

- average weekly earnings for employees increased by 2.2% in nominal terms, compared with a year earlier.
- average weekly earnings for employees decreased by 0.3% in real terms, compared with a year earlier.
- employment growth was strongest for those aged 25–34 years and 50–64 years.
- employment fell among young people aged 16–24 years.
- growth in employment over the year was greater for women (up by 246 000) than for men (up by 71 000).
- employment growth was not equal across the country, with the biggest increases in the West Midlands, London, Scotland and the South East but large falls in the South West, East Midlands and Wales.
- the proportion of workers in temporary jobs because a permanent one was not available was 27.6%.
- the proportion of people working part-time because they could not find a full-time job was 12.3%.

The UK economy has created nearly 6 million new jobs in the last 20 years which was necessary given the increase in the UK population over this period (see Fig. 2). Many of these extra jobs were primarily due to an increase in self-employment and employees in part-time work.

Fig. 2 – UK population estimates 1995–2045



Source: ONS

The 'gig economy'

Each day, just before lunch, couriers dressed in the distinctive green and black uniform of Deliveroo, the online food delivery company, arrive at the end of the street, park their bikes next to a bench and wait. Holding their smartphones, they wait for someone, somewhere in the city, to place an order with one of the nearby restaurants and cafés. When an order comes through, one of the couriers will pick it up and deliver it in exchange for a small fee. They will then return to the bench to wait for another call.

Welcome to the 'gig economy' which can be defined as, "a labour market characterised by the large number of short-term contracts or freelance work, as opposed to permanent jobs".

Plenty of people in early 21st-century Britain can identify with the experience of working for a company like Deliveroo. But even more people are employed on zero-hour contracts in a wide variety of jobs, from stacking shelves to waiting tables to caring for the elderly. According to the Office for National Statistics, around 900 000 workers rely on a job with a zero-hour contract. These people start every week not knowing how much work they will get or how much money they will earn. Informal or casual employment of this kind helps explain why the UK's unemployment rate has not grown out of control since the financial crash of 2008. This increased labour market flexibility has made it easier and less risky to employ workers, especially for monopolistically competitive firms who will expect to see a fall in their average costs.

However, opponents of the growth in casual employment, including the trade unions, claim that there are underlying problems associated with this labour model. Millions of people are "just about managing" and many are faring much worse. In the 12 months up to March 2017, the UK's largest food bank charity gave out more than one million emergency food parcels to people in desperate need. At the same time, household debt has grown to 150% of income. This debt has been fuelled by low wage growth and low interest rates which has made credit easily available. But the main issue for the estimated 8.3 million people living with unmanageable debt is needing to borrow money to survive.

It is no more than a coincidence that these concerns are happening in a year which recognises the 75th anniversary of the founding of the UK welfare state which was set up to focus on, among other issues, a problem that had grown since the early 1800s: that many workers struggled to earn regular and reliable wages throughout the entire year. However, some have come to regard the welfare state simply as a cost to be kept down rather than part of an economic and social strategy that aims to deliver security for all. Successive governments have cut benefits and altered the tax system to move the burden away from more progressive direct taxation towards more regressive indirect taxation.

Fig. 3 shows the effect on different groups of households by comparing their original income earned from employment with their final disposable income after benefits and taxation have been taken into account.

Fig. 3 – Average incomes, taxes and benefits of households by decile group, 2015/16

	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	All households
Original income	6 286	13 988	17 410	25 754	31 424	39 293	47 963	59 622	68 968	117 960	42 867
+ Total cash benefits	6 387	7 748	8 313	6 319	4 494	3 729	2 368	2 283	2 004	1 544	4 519
Gross income	12 673	21 736	25 723	32 074	35 918	43 022	50 331	61 905	70 972	119 504	47 386
– Direct taxes	1 528	2 299	3 046	4 794	5 940	7 931	10 091	13 199	15 534	29 991	9 435
Disposable income	11 145	19 437	22 677	27 280	29 978	35 091	40 239	48 706	55 438	89 513	37 951

Source: ONS

Please refer to insert H460-01 June 2019, which can be downloaded separately and is included above.

Calculate the participation rate in the UK labour market for the period from June to August 2017.

[2]

(b) Refer to lines 6–9.

Identify and explain why the change in average weekly earnings in nominal terms is greater than in real terms.

-----[2]

(c) What does Fig. 2 suggest will happen to the dependency ratio in the UK between 2015 and 2045?

-----[2]

(d) * Evaluate, using evidence from the stimulus material, the impact of an increase in labour market flexibility in the UK.

[12]

Grocery retailing is often used as an example of an oligopoly market in the UK. Economists sometimes divide oligopoly markets into two types: perfect oligopoly, in which the products sold are homogenous and imperfect oligopoly, in which there are differentiated products. The behaviour of firms in a perfect oligopoly can be significantly different from those in an imperfect oligopoly.

In the UK, since the 1950s, the selling of groceries has become increasingly dominated by supermarkets. Tesco has been the market leader for a sustained period of time with over 25% of the market share. There are, however, other competitors who also maintain a significant share of the grocery market, as shown in Fig. 1.

Supermarket	Percentage share of grocery market	Percentage share of grocery market
	July 2014	July 2016
Aldi	4.8	6.2
Asda	17	15.5
Co-op	6.3	6.4
Lidl	3.6	4.5
Morrison's	11	10.7
Sainsbury's	16.6	16.3
Tesco	28.9	28.3
Waitrose	4.9	5.1
Others	6.9	7.0

Fig. 1 Percentage share of grocery market by supermarket. July 2014 and July 2016.
(As measured by % of total market sales revenue.)

The market for groceries is large with the value of sales exceeding £170bn. This has continued to grow, see Fig. 2, despite the macroeconomic problems of the UK economy and a prolonged price war between the supermarkets.

	UK grocery market by value in £bn
2014	177.4
2016	179.1

Fig. 2 UK grocery market by value £bn. 2014 and 2016.

The larger supermarkets have used price cutting in an attempt to maintain market share. While another method of differentiating their brand has been to offer better home delivery services. At present online ordering accounts for less than 10% of all grocery sales.

Sainsbury's, one of the leading supermarkets, has recently decided to integrate its business by buying out Argos.

This constitutes horizontal integration. Argos specialises in selling non-grocery products such as toys, clothing and household goods. These non-grocery products are part of Sainsbury's wider product portfolio. Argos offers delivery by 10pm for any of its products ordered by 6pm on the same day. One of the potential benefits of this buy out of Argos by Sainsbury's is the delivery network that Argos has established. Sainsbury's hope to increase their ability to deliver food using online ordering. However, the delivery of items such as clothes and household goods creates fewer problems than delivering fresh food products. Food items require different temperatures and items are often fragile or bulky making the process more difficult and costly.

The major problem with online grocery sales is the lack of profitability. There is a very high level of fixed costs involved. It has been estimated that, on average, a delivery costs the supermarket £20 whereas consumers are charged less than £5. Ocado, an online groceries only provider, operated for 15 years before making a profit.

In recent years there have been some successful new entrants to the grocery retailing market such as Aldi, Lidl and Netto. Most recently, Amazon, a market leader in online sales, has also entered the grocery retailing market through a new service called Pantry. The entry of new firms into a market can influence the profits earned by the incumbent firms. Fig. 3 shows how the profits earned by Tesco and Sainsbury's have changed in recent years.

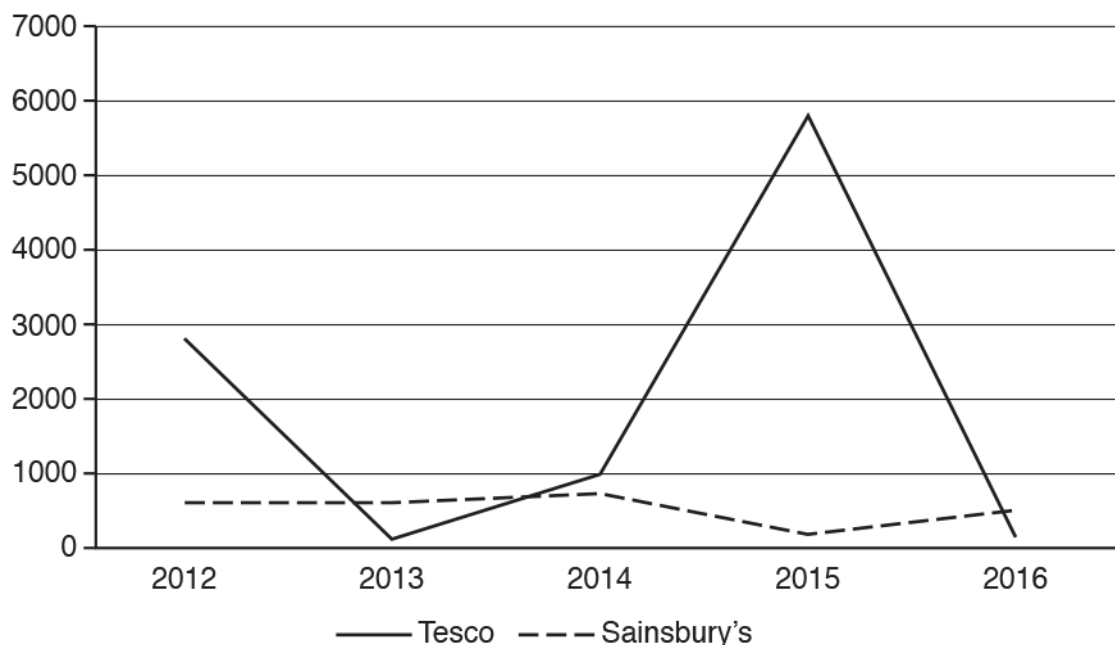


Fig. 3 Profits (£m) earned by Tesco and Sainsbury

Please refer to Insert H460-01 Practice 2, which can be downloaded separately and is also included above.

Compare the 3 firm concentration ratio for supermarkets in the grocery market in July 2014 and July 2016.

- 11 * "The U.K. productivity gap widened to its worst level since records began." The Guardian, February 2016.

Evaluate the implications of variations in unit labour costs and labour productivity between firms.

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

This image shows a full-page view of a document template. It consists of a white background with approximately 20 horizontal dashed lines spaced evenly apart, typical of primary or secondary school writing paper. In the bottom right corner, there is a small black rectangular box containing the white text "[25]", indicating the page number.

- 12 A firm decides to increase its output from 103 to 104 units. From the data below, what will be the marginal revenue from doing this?

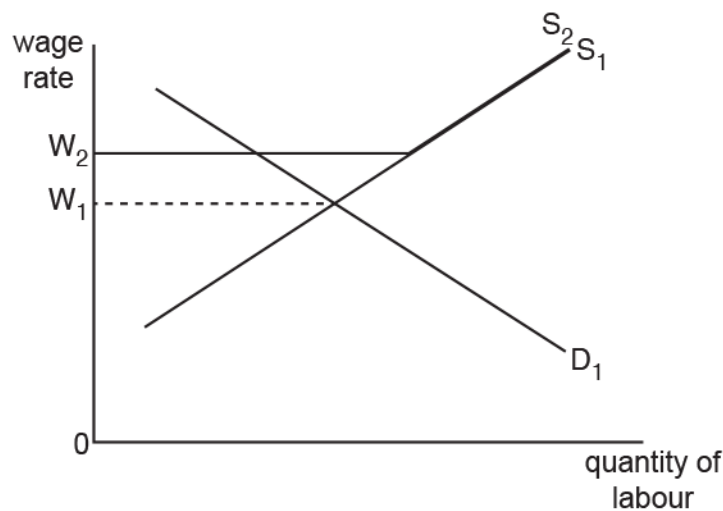
Quantity	Price	Total Cost	Total Revenue
100	£200	£13 625	£20 000
101	£199	£13 742	£20 099
102	£198	£13 859	£20 196
103	£196	£14 003	£20 188
104	£194	£14 180	£20 176
105	£191	£14 365	£20 055

- A -£12
B £177
C £194
D £5996

Your answer

[1]

13 What is the most likely cause of the wage rate increasing from W_1 to W_2 in the diagram below?



- A Imposition of a maximum wage on a monopsony labour market
- B Imposition of a minimum wage on a monopsony labour market
- C Relaxation of immigration controls in a country
- D Trade union intervention on a competitive labour market

Your answer

[1]

14 Please refer to insert H460-03 Practice 2 which can be downloaded separately and is included above with Question 27.

Using the information in Extract 1, explain why the fall in the real wages of doctors after 2010 'goes against the traditional economic theory of derived demand'.

[2]

Evaluate, using an appropriate diagram, the extent to which trade unions solve labour market failure in situations of bilateral monopoly such as those outlined in Extract 1.

[illegible]

Handwriting practice lines consisting of 20 horizontal dashed lines.

[15]

- 16 Please refer to insert H460-03 Practice 2 which can be downloaded separately and is included above with Question 27.

Explain, using a diagram, **one** factor that would explain the wage differentials illustrated in Fig. 3.1.

[4]

[8]

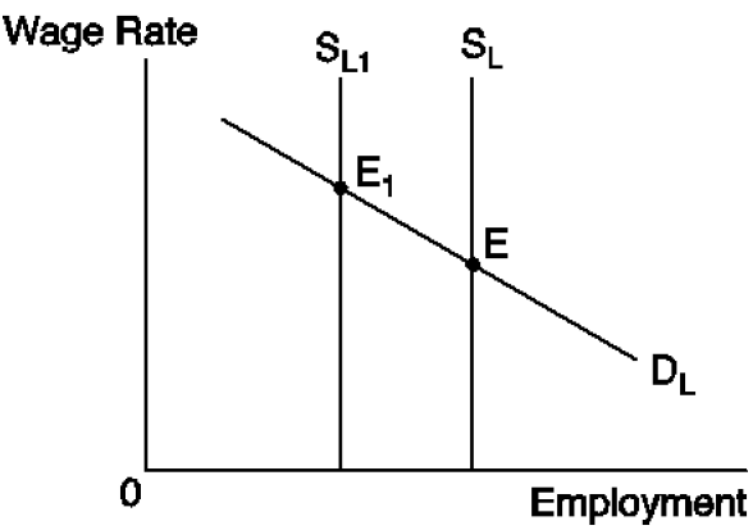
- 19 Please refer to insert H460-03 Practice 1 which can be downloaded separately and is included above with Question 31.

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

Blank lined paper for writing.

[15]

20 The following diagram represents the labour market conditions in a particular industry.



Which of the following combinations of statements is correct if the supply of labour shifted from S_L to S_{L1} resulting in a change in the labour market equilibrium from E to E_1 ?

	Statement 1	Statement 2
A	Economic rent is unchanged	Labour will be supplied whatever the wage rate
B	Economic rent is unchanged	There would be no demand for labour at a wage rate above the equilibrium
C	Transfer earnings are unchanged	Labour will be supplied whatever the wage rate
D	Transfer earnings are unchanged	There would be no demand for labour at a wage rate above the equilibrium

Your answer ☐

[1]

21 An employer pays all his workers the same wage. At present he employs 50 workers at £20.00 per day. He has to increase the wage by 20p per day to attract an extra worker.

What is the marginal cost of the extra worker to the employer?

- A 20p
- B £20.20
- C £30.20
- D £1030.20

Your answer ☐

[1]

22 Sweden is generally considered to have relatively high unit labour costs. What might be the reason for this?

- A High investment in physical capital
- B High levels of employment protection laws
- C Low costs of living
- D Low tax rates

Your answer

[1]

23 When would the quantity of labour supplied increase more than proportionally to an increase in the wage rate?

- A It is easy to substitute labour for capital
- B Labour costs take up a high proportion of total costs
- C There is a high level of skill required in the job
- D The job requires minimal training

Your answer

[1]

24 Please refer to insert H460-03 June 2019 which can be downloaded separately and is included above with Question 27.

Using Fig. 2.1, explain what has happened to migration in the UK between 2000 and 2016.

[2]

25 Please refer to insert H460-03 June 2019 which can be downloaded separately and is included above with Question 27.

Evaluate, using the information in Extract 2, the impact on the UK labour market and wider economy of the UK ending the free movement of labour with EU countries.

[15]

A A decrease in corporation tax
B An increase in output
C An increase in the National Living Wage
D An increase in the quality of capital equipment

[1]

27 What could cause wages in an occupation to be lower than in other occupations?

- A A long training period is required before starting the job
- B A high proportion of workers in the occupation are members of a trade union
- C Wages take up a high proportion of total costs
- D Workers have a high marginal revenue product of labour

Your answer

[1]

28 * The percentage of employees in the UK choosing to be a member of a trade union, has fallen from 27% to 20% in the last 20 years. Across different industries, this figure ranges from 48% in the education sector to 3% in the food service sector.

Evaluate, using an appropriate diagram(s), whether trade union activity helps to encourage the efficient operation of the UK labour market.

Blank lined paper for writing.

[25]

29 *The gender pay gap for full-time workers in the UK has fallen from 17% to 9% in the past 20 years. However, the gap is still over 30% in many engineering and manufacturing jobs but is much smaller, or even negative, in many service sector jobs, including in the health sector.

Evaluate, using an appropriate diagram(s), whether wage differentials are mainly caused by the presence of a monopsonistic employer. [25]

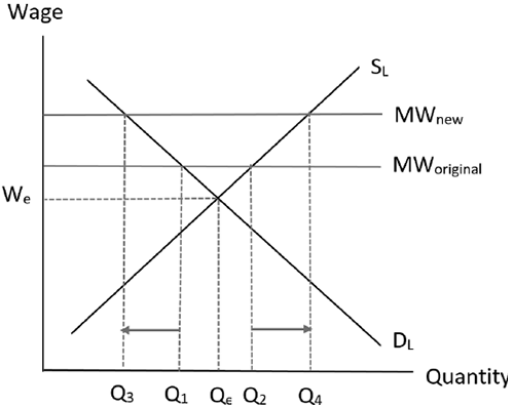
Handwriting practice lines consisting of 20 horizontal dashed lines.

Blank lined paper for writing.

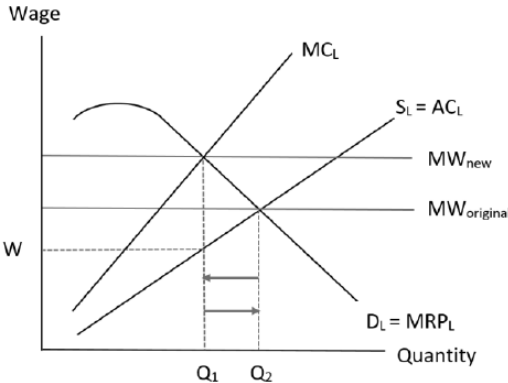
Blank lined paper for writing.

END OF QUESTION PAPER

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
1	In April 2016 the U.K. National Minimum Wage for those aged 25 and over was increased by over 7% from £6.70 per hour to £7.20 per hour. It is now called the National Living Wage. Evaluate, using an appropriate diagram(s), the impact on an economy of an increase in the minimum wage. Level 5 (21–25 marks) Good – Strong knowledge and understanding of a National Minimum / Living Wage and the impact of an increase in the minimum wage in the context of an economy. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the impact an increase in the minimum wage weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of a National Minimum / Living Wage and the impact of an increase in the minimum wage in the context of an economy. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	For a mark at the top of each level the response should be in context. A response which does not address “an increase in the minimum wage” should be given a mark up to the mid-point in the Level awarded. A minimum wage acts as a price floor in the labour market and prevents wages in that labour markets from falling to the equilibrium wage rate. An increase in the minimum wage from $MW_{original}$ to MW_{new} will increase the quantity of labour supplied from Q_2 to Q_4 but reduce the quantity of labour demanded from Q_1 to Q_3. There are different perspective on whether an increase in the minimum wage will create positive or negative impacts on an economy.  There are several positive impacts of an increase in the minimum wage on an economy. From an equity point of view it would increase protection of workers against exploitation by powerful (monopsony) employers and may lead to a more equal distribution of income by increasing wages in low skill, low paid occupations by raising the living standards of the poorest groups in society. From an efficiency point of view an increase in the minimum wage increases the gap between working and not working, reducing

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of a National Minimum / Living Wage and the impact of an increase in the minimum wage in the context of an economy. Good analysis of the negative and positive impacts of an increase in the minimum wage. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of the impact an increase in the minimum wage considering both sides/comparing alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of a National Minimum / Living Wage and the impact of an increase in the minimum wage in the context of an economy. Reasonable analysis of the negative and positive impacts of an increase in the minimum wage. There is correct analysis largely in the form of single links. These		voluntary unemployment and it may result in an increase in productivity as workers are more motivated to work harder and firms may invest more in educating and training workers, raises the MRP of labour. On the other hand there may be negative effects of an increase in the minimum wage. An increase in the minimum wage may do little to increase incomes at the bottom of the income distribution as it may encourage the use of zero-hours contracts and non-standard employment, lead to a reduction in employment due to the substitution of capital for labour or firms moving their activities to low wage economies and may have little impact on inequality if other workers bargain to maintain wage differentials. There may be little impact on poverty as an increase in the minimum wage only increases incomes for those in work.  The argument that minimum wages reduce employment very much depends on the nature of the particular labour market affected by a minimum wage. Where there is a monopsony employer, the marginal cost of labour will exceed the average cost. Such employers reduce both wages (to $W_{\min}$ the diagram) employment (from Q_1 to Q_2). A minimum wage of MW_{original} could both increase wages and increase employment. However, an increase in this minimum wage to MW_{new} would actually reduce employment back to Q_1 whilst increasing wages.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of an increase in the minimum wage, considering both sides/comparing alternatives. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of a National Minimum / Living Wage and the impact of an increase in the minimum wage in the context of an economy. Limited or no analysis of the negative and positive impacts of an increase in the minimum wage. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of an increase in the minimum wage in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight</td><td>Above middle and either below top of</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight	Above middle and either below top of		The impact on an economy of an increase in the minimum wage will can have significant impact on some labour markets but will have no impact in labour markets where the equilibrium wage is greater than the minimum wage e.g. high skill occupations. Much depends on the size of the increase, in particular in relation to inflation and changes in productivity. Whilst economic theory predicts that there would be an increase in unemployment, this would not be the case if the increase was introduced at a time of economic growth as the demand for labour would be increasing. Impacts on international competitiveness depend on the level of the minimum wage compared to other countries, especially major international competitors. <u>Examiner's Comments</u> This question elicited some excellent responses, with candidates showing a very good grasp of the analysis and evaluation of the impact of minimum wages on the labour market and the wider economy. Better candidates focused on the question by drawing out the implications in the context of an increase in the minimum wage. There were some confusions and inaccuracies in understanding, for example that an increase in the supply of labour would lead to a fall in unemployment but overall these did not detract for the quality of the economic analysis offered on both sides.
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria but with some slight	Above middle and either below top of										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			inconsistency level or at middle of level (depending on number of marks available)		
			Just enough achievement on balance for this level Above bottom and either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below At bottom of level		
			Total	25	
2			C	1 (AO2)	Rationale A Wages would be below the competitive equilibrium wage in this instance. B This would result in the wage rate falling or staying the same rather than rising. C Correct: unions act as monopoly suppliers of labour and refuse to supply their labour below the target wage rate. D This would cause the whole supply curve to shift to the left
			Total	1	
3			B	1 (AO1)	Rationale A This will make demand for labour more inelastic. B Correct: When wages rise firms are more easily able to substitute labour for capital, making demand more wage elastic. C This will make supply of labour more elastic. D This will make demand for labour more inelastic.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
4			Using the data from Figure 1.1, compare what has happened to house prices and average earnings between 2000 and 2014. <i>Award 1 mark for any of the following comparisons:</i> - Both house prices and average earnings were increasing in most years (iii) - Generally house price growth exceeded average earnings growth (iv) - House prices were more volatile than average earnings over the period (v) - House price growth and average earnings growth are lower at the end of the period than they were at the start (vi) - Average earnings increased in every year whereas house price growth was negative at times	2 (AO2 x 2)	Do not award any marks for a year by year description of the data, nor a comment about either of the data sets which lacks a comparison to the other variable. <i>Answers which confuse levels with rates should not be credited – eg. House prices were higher than average earnings.</i> Examiner's Comments Most candidates were able to secure a mark for correctly identifying that house prices were more volatile than average earnings over the period. Two mark answers were more scarce and most easily achieved through recognising that house prices were generally rising faster than earnings. Too many answers simply trawled through the data by picking out specific years/periods to talk about. Candidates are advised to look for overall trends that cover the whole period identified in the question. Zero marks most commonly resulted from confusion over the difference between rates and levels – a number of candidates referred to average earnings falling rather than the growth of average earnings falling.
			Total	2	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
5			C	1 (AO1)	Rationale A This area would represent consumer surplus in a goods market diagram. B This is economic rent. C Correct: this represents the opportunity cost of undertaking the current employment. D Transfer earnings are shown on the labour supply rather than labour demand curve.
			Total	1	
6			C	1 (AO1)	Rationale A This is the ratio of dependents to the total population. B This is the proportion of the working age population in employment. C Correct: the proportion of those of working age in the labour force (employed + unemployed). D The ratio of unemployment benefits to labour market earnings.
			Total	1	

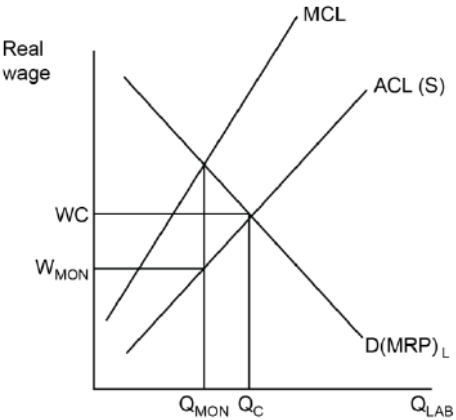
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
7		i	Explain whether the information in Fig.3 on average income and on 25 – 34 year olds who had completed tertiary education shows the expected relationship between the two. 1 mark for whether the information supports the expected relationship OR 1 mark for the expected relationship - the expected relationship is not supported by Fig. 3 / 'no '(1) - it is expected that the higher the % of 25 – 34 year olds completing tertiary education, the higher the average income (1) 1 mark for use of supporting evidence - USA has the highest average income but the third lowest proportion of the population completing tertiary education (1) - South Korea has the lowest income but the highest proportion 25 – 34 year olds completing tertiary education (1) - South Korea has a lower income than the USA but higher proportion of 25 – 34 year olds completing tertiary education (1) - Fig. 3. does not show average incomes for 25 – 34 year olds / Fig. 3 show the average income of both age groups (1) - Fig. 3 does not show the average income for 25 – 34 year old before completion of tertiary education (1)	2 (AO2* x 2)	<u>Examiner's Comments</u> Most candidates were able to see that the data in Fig. 3 did not support the expected relationship and could use the data to give examples.

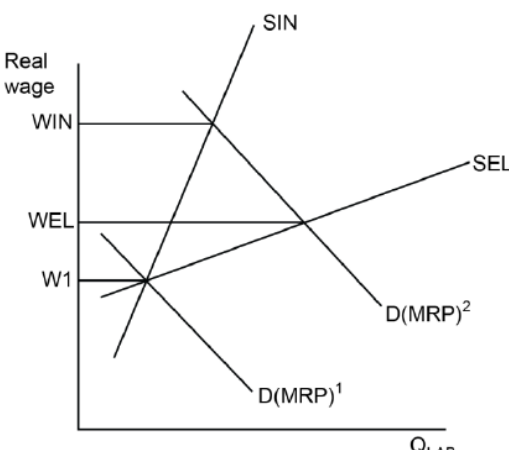
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
		ii	Explain, using information in Fig. 3, which country is likely to have experienced the lowest increase in occupational mobility over the last thirty to forty years. 1 mark for an understanding of occupational mobility / immobility - the ease with which workers can switch job. (1) 1 mark for identification of the country with the lowest relative <u>OR</u> absolute increase - USA (1) <u>OR</u> Germany (1) Up to 2 marks for use of the information in Fig. 3 - USA has the smallest (1) relative difference (1) of 13.4% (1) in the proportion of young people who have completed tertiary education than older people - Germany has the smallest (1) absolute difference (1) of 4.2 percentage points (1) in the proportion of young people who have completed tertiary education than older people.	3 (AO1* x 1) (AO2* x 2)	<u>Examiner's Comments</u> Quantitative skills could in general be improved in the responses to this question. Weaker responses did not look at the change in the proportion of young people who have completed tertiary education relative to older people. This showed that the smallest absolute difference occurred in Germany and the smallest relative difference in the USA. Either of these answers was acceptable. Very few candidates were able to accurately quantify differences, with some confusion over a percentage difference and a percentage point difference. Centres are advised to reinforce these quantitative skills through interpretation of economic data.
			Total	5	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
8	In January 2016 junior doctors were planning to strike after pay negotiations with their employer, the National Health Service, had failed to produce a satisfactory outcome. Evaluate, using an appropriate diagram(s), the impact of a monopsonist employer, such as the National Health Service, on the market for highly skilled labour. Level 5 (21–25 marks) Good - Strong knowledge and understanding of the impact of monopsony and elasticity of supply on the market for labour. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the impact of monopsony and elasticity of supply on the market for labour weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of the impact of monopsony and elasticity of supply on the market for labour. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	A monopsonist is a single buyer within a market. A monopsonist employer will be the single buyer of labour within a labour market. Examples of this are usually associated with public sector employment such as doctors and nurses. Although there is a small private sector the market for doctors is dominated by the NHS. Junior doctors/doctors are highly skilled factors of production. The training period is long and there are barriers to entry in the form of high achievement in examinations. As a result, there is a very inelastic supply for such labour. It is argued that the monopsonist will use its market power to drive down wages below the market equilibrium. Similarly, the quantity of labour employed will be reduced. The MC of labour curve of the monopsonist will be above the AC (Supply) of labour – assuming that all workers are paid the same wage when the marginal worker is employed.  In the diagram the monopsonist will employ the quantity of labour determined by the interaction of MC lab and the MRP curve, This will produce a wage, W_{MON}, below the equilibrium, W_c, and a level of employment, Q_{MON} below the equilibrium, Q_c.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation will weigh up both sides/alternatives but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of monopsony and elasticity of supply. Good analysis of the impact of monopsony and elasticity of supply on the market for labour. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of the impact of monopsony and elasticity of supply on the market for labour considering both sides/alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of monopsony and elasticity of supply. Reasonable analysis of the impact of monopsony and elasticity of supply on the market for labour. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be		The inelastic supply of doctors will place them in a very strong bargaining position. Any increase in the demand for a factor with an inelastic supply will produce a high return compared with those with an elastic supply.  In the diagram the increase in demand for labour, D1 to D2, has produced a greater increase in wages for workers with an inelastic supply. The BMA is the professional body representing the interests of junior doctors. It is in effect a monopoly supplier of labour similar to a trade union. The bargaining process between the two groups can be similar to the bi-lateral monopoly argument. The skilled group can refuse to supply their labour below a certain wage and thus counteract the power of the monopsonist. The result is indeterminate and will rely on the relative strength of the two groups. Factors which will influence the outcome may include; the financial position of the monopsonist, the state of the economy and the degree of militancy of the labour force The elasticity of demand for the labour will be a factor and may involve analysis of the elasticity of demand for the good or service provided by the skilled labour, the time

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			imperfectly labelled or not linked to the analysis. Reasonable evaluation of the impact of monopsony and elasticity of supply on the market for labour considering both sides/comparing alternatives. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of monopsony and/or elasticity of supply. Limited or no analysis of the impact of monopsony and/or elasticity of supply on the market for labour. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of the impact of monopsony and elasticity of supply on the market for labour in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		period and the percentage of total costs made up by the wage bill.
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			Just enough achievement on balance for this level Above bottom and either below middle or at middle of level (depending on number of marks available) On the borderline of this level and the one below At bottom of level		
			Total	25	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
9	a		Calculate the participation rate in the UK labour market for the period from June to August 2017. Participation rate = $32,341 / 41,153$ = 78.6% (2) Participation rate = $\frac{\text{Economically active population}}{\text{Population of working age}}$ (1) Economically active population (000s) = $30,923 + 1,418 = 32,341$ (1) Population of working age (000s) = $30,923 + 1,418 + 8,812 = 41,153$ (1)	2 (AO2*2)	Annotate with  2 marks for the correct answer: - accept 78%, 79% or answer in decimal/ratio form 1 mark where the answer is incorrect but there is some correct working shown including: - formula for the participation rate - economically active population - population of working age Examiner's Comments A common error in the calculation offered by candidates was not to include the unemployed in the size of the economically active population. The size of the population of working age was better understood.  Misconception The economically active population is not just the number of people in employment, it also includes those not in employment but actively seeking work (i.e. the unemployed).

Mark Scheme

Question		Answer/Indicative content	Marks	Guidance
	b	Identify and explain why the change in average weekly earnings in nominal terms is greater than in real terms. - Real earnings / wage growth = nominal earnings / wage growth – inflation (1) - Nominal data does not allow for inflation (1), so if inflation is positive, real earnings will grow more slowly (1). - Real data takes inflation into account (1), so if inflation is positive real earnings will grow more slowly (1). - If prices are increasing (1) earnings will be worth less in real terms (1) - Inflation (1) reduces the real spending power of money (1). - Nominal data will overstate the rise in earnings (1) when prices are rising (1).	2 (AO1*1) (AO2*1)	Annotate with  1 mark for identification of rising prices / inflation 1 mark for explaining how inflation causes real earnings/ wages to rise less rapidly than nominal earnings / wages Examiner's Comments Most candidates understood that earnings in real terms accounted for the impact of inflation. Better responses explained why inflation causes real earnings growth to be slower than nominal growth or used the data to explain that if nominal earnings had risen by 2.2% and real earnings had fallen by 0.3%, then inflation had been around 2.5%.
	c	What does Fig. 2 suggest will happen to the dependency ratio in the UK between 2015 and 2045? - The dependency ratio is the ratio of dependents to the working population (1) - The dependency ratio will increase (1) - This is because the number of dependents (aged below 16 and over 64) is growing faster than those aged 16-64 (1) - It will increase from 58.5% to 72.7% (1) OR by 14.2 percentage points (1) OR by 24.4% (1) – accept range from 56% to 61% and 70% to 74% – accept calculations as decimals eg rises from 0.6 to 0.73	2 (AO1*1) (AO2*1)	1 mark for a definition of the dependency ratio 1 mark for what will happen to the dependency ratio (it will increase) 1 mark for reference to Fig. 2 – this does not have to involve a calculation Max 2 marks Annotate with  Examiner's Comments Most candidates recognised that the dependency ratio in the UK is likely to rise between 2015 and 2045 and referred to the difference in the growth rates of the dependent population and the population aged 16 – 64.

Mark Scheme

Question		Answer/Indicative content	Marks	Guidance
	d	Evaluate, using evidence from the stimulus material, the impact of an increase in labour market flexibility in the UK. Level 3 (9–12 marks) Good knowledge and understanding of labour market flexibility and its impact in the context of the UK economy, supported by the evidence in the stimulus material and the candidate's own knowledge and understanding. Good – Strong analysis of how an increase in labour market flexibility may affect the UK economy. • Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. • Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good – Strong evaluation of the consequences of an increase in labour market flexibility, weighing up points of view/comparing alternatives. • Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (5–8 marks) Good knowledge and understanding of labour market flexibility and its impact in	12 (AO1 x 1) (AO2 x 1) (AO3 x 5) (AO4 x 5)	Flexible labour markets refer to: • Flexibility of hours worked, skills expected of people within the workplace, part-time working, variable or zero-hours & temporary contracts • Ease of hiring and firing of workers • Increased locational flexibility of labour to respond to changing regional patterns of employment demand • These practices allow employers to vary levels of output in response to changing market conditions. Benefits from labour market flexibility may be seen in the current low levels of unemployment, even though the economy is weak and the success of growth in jobs, especially in the self-employed and part-time sectors. The desire by many for zero-hour contracts is also a positive factor. It has given workers more choice over their work-life balance as well as dealing with child care or care of the elderly. However, it may be argued that the uncertainty about hours and incomes created by the 'gig economy' may create long term disadvantages. The proportion of workers only taking temporary or part-time jobs because a permanent or full-time job is unavailable, the number of households 'just about managing' and the growing household debt figures may be worrying statistics for a government considering policies to make the labour market ever more flexible. Equity issues may also be considered. Reference may be made to other issues, including: • The impact on the minimum/living wage • The power of trades unions. • The ease to hire and fire workers and the use of zero-hour contracts which

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	the context of the UK economy, supported by the evidence in the stimulus material and the candidate's own knowledge and understanding. Reasonable analysis of how an increase in labour market flexibility may affect the UK economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis Reasonable evaluation of the consequences of an increase in labour market flexibility. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–4 marks) Limited – Reasonable knowledge and understanding of labour market flexibility in the context of the UK economy, supported by the evidence in the stimulus material and the candidate's own knowledge and understanding. Limited analysis of how an increase in labour market flexibility may affect the UK economy. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the consequences of increased labour market flexibility in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i>		enable firms to choose how much to employ workers • The impact on the welfare system as a result of workers/households having less regular or predictable levels of income. Evidence in the stimulus material which may be used includes: • there is still some slack in the labour market even though unemployment is at a 42-year low • employment fell in the 16-24 age group where labour flexibility is in large demand • there was unequal employment growth across the country which may be a result of labour market flexibility or policies to support it • the significant growth in the gig economy in many sectors of the UK economy • opposition to the gig economy and zero-hour contracts by the trades unions 0 marks No response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <u>Examiner's Comments</u> This question was well handled by candidates, who had a good understanding of the arguments for and against greater labour market flexibility. Arguments supported and developed by strong analysis and evaluation were able to access Level 3 of the mark scheme. Chains of reasoning offered were important in differentiating between strong, good and reasonable analysis and evaluation with more able candidates offering more than a list of valid arguments. As in Question 1 (f), responses which provided specific use of UK context in this case through explicit use of the stimulus material, were awarded marks in the top Level of the mark scheme.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			Descriptor	Award mark	Exemplar 2 An increase in labour market flexibility ~~too~~ could mean that workers ~~could~~ mean that it is easier for and less risky for employers to employ workers according to the ~~at~~ case study. This is because their employers labour costs become way more variable and dependent on output. This would mean that firms would not overpay for labour and would only pay for the ~~what~~ the labour provides. However, this could mean a rise in unemployment because firms may be less ~~reluctant~~ to hire willing to hire people. However, this seems to not be the case. According to the stimulus material, many of the extra jobs ~~so~~ that were created by the UK economy were due to an increase in self-employment and employees in part-time work. Also an increase in labour flexibility could result in less people suffering from occupational immobility. If people partake in gig economies such as delivery which require low skill, they it could be argued that occupational immobility is less apparent in society. However, some may argue against this because the people working in those part-time shift jobs did not actually gain any extra skills. Exemplar 3 Labour market flexibility can be increased in several ways. Occupational labour mobility is the ease with which workers can switch between occupations to meet changing labour demands. This can be increased with a greater amount and quality of education. Labour market flexibility can also be improved by encouraging firms in the labour market to create it easier and cheaper for firms to hire and fire workers. An increased ability to do so will reduce average cost of production. Increased labour market flexibility is good for the UK because of a smaller number of people with
			Consistently meets the criteria for this level	At top of level	
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	
			On the borderline of this level and the one below	At bottom of level	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance				
					action to an increase. Increased flexibility caused by a larger number of 'internal' jobs or zero hour contracts means the demand by firms of labour has risen. This ~~causes~~ demand of the jobs that previously candidate have existed has meant people ~~existed~~ with no work can take up these jobs. These jobs have been made available because of improvement in technology. Jobs such as delivery rider are now possible. This has increased flexibility of labour market and the ease with which jobs can be undertaken. Increased labour market flexibility does have a significant number of ~~negative~~ impacts, ~~especially~~ especially on the workers. The flexibility often arises from reduced regulation, ~~rather~~ this can often lead to exploitation of workers by firms. Workers have no guarantee of work because firms are allowed to provide work as and when they decide. This means workers can be left with no income at very short notice. These people are then left to have to turn to the government for help by way of benefits. It would be better for the economy if people to be in full time guaranteed work where they are contributing to the economy rather than being left out. The impact of increased flexibility in the labour market will depend on the position of workers in part time work. Evidence from October 2017 shows 17.5% of people couldn't find a full time job. This meant they had to accept a lower income and lower standards of living than they want. ~~However~~ Labour market flexibility has meant a more part time and temporary jobs on offer rather than the traditional full time permanent employment. How much increased flexibility in the labour market increases it zero hour and short term work will determine whether the impact on society and the economy is positive or not. The ~~lack~~ lack of a guarantee of an income and lead to great stress to an individual and social tensions if people are seen to be mistreated by firms. This reduces standard of living and happiness.				
<table><tr><th>Exemplar 2</th><th>Exemplar 3</th></tr><tr><td> - Structure of the response does not allow for full development of arguments – candidate 'jumps' from analysis to evaluation and back </td><td> - Clear structure allows full development of the arguments raised - Wide ranging understanding of different forms of labour flexibility offered </td></tr></table>						Exemplar 2	Exemplar 3	Structure of the response does not allow for full development of arguments – candidate 'jumps' from analysis to evaluation and back	- Clear structure allows full development of the arguments raised - Wide ranging understanding of different forms of labour flexibility offered
Exemplar 2	Exemplar 3								
Structure of the response does not allow for full development of arguments – candidate 'jumps' from analysis to evaluation and back	- Clear structure allows full development of the arguments raised - Wide ranging understanding of different forms of labour flexibility offered								

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					• Reasonable analysis of one benefit of labour market flexibility which is linked to the stimulus material but no developed chain of reasoning • Some confused and limited evaluation, again with reference to the stimulus material • Level 2 mark of 6 out of 12 was awarded. • Strong analysis of one benefit of labour market flexibility using chains of reasoning and the stimulus material • Developed evaluation through consideration of disadvantages for workers of flexibility • Level 3 mark of 12 out of 12 was awarded.
			Total	18	
10			Compare the 3 firm concentration ratio for supermarkets in the grocery market in July 2014 and July 2016. In July 2014, the 3 firm concentration ratio was $28.9+17+16.6 = 62.5\%$. In July 2016, $28.3+16.3+15.5 = 60.1\%$ (1 mark) 3 firm concentration ratio fell (1mark) by 2.4 percentage points (1 mark).	2 (AO2*2)	Both correctly calculated but no indication that the concentration ratio fell = 1 mark.
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
11	Evaluate the implications of variations in unit labour costs and labour productivity between firms. Level 5 (21–25 marks) Good - Strong knowledge and understanding of unit labour costs and productivity. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the implications of variations in unit labour costs and productivity weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of unit labour costs and productivity. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	Unit labour costs are the wages, salaries and other costs of labour divided by total output. Productivity is a measure of the efficiency of factors of production. For example, labour productivity measures the output per worker or output per hour worked. Relative costs of labour are important because this influences the relative competitiveness of UK goods in both overseas and domestic markets. The relative costs of production influence the prices that firms can charge. If unit labour costs in a firm or country rise more rapidly than other firms then there will be a loss of competitiveness. The implications of this are a loss of demand, output and employment. Increases in labour productivity relative to other firms or countries can reduce unit labour costs and this may result in reduced prices, increased profits, increased wages and greater employment. However, comparisons of productivity are not straightforward due to differences in data collection and differences in work practices. For example, working hours are longer in some countries than others. It is also important to realise that labour productivity is not the only relevant measure as firms may differ in their use of capital. Total factor productivity may be a more significant measure of productivity but this is more difficult to measure as measurements of the capital stock are prone to error and misinterpretation. It can also be argued that differences in unit labour costs and productivity are not significant to firms as they are more concerned about consumer confidence, the degree of monopoly power they hold or, on an international scale, changes in the exchange rate and trade agreements. E.g. the significant fall in the value of sterling

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			<i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of unit labour costs and productivity. Good analysis of the implications of variations in unit labour costs and productivity. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of the implications of variations in unit labour costs and productivity considering both sides/comparing alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of unit labour costs and productivity. Reasonable analysis of the implications of variations in unit labour costs and productivity. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the implications of variations in unit labour costs and productivity considering both sides/comparing alternatives.		after the Brexit vote or concerns about loss of access to the EU single market.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance								
			<i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of unit labour costs and productivity. Limited or no analysis of the implications of variations in unit labour costs and productivity. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of the implications of variations in unit labour costs and productivity in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on</td><td>Above bottom and either below middle</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on	Above bottom and either below middle		
Descriptor	Award mark												
Consistently meets the criteria for this level	At top of level												
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)												
Just enough achievement on	Above bottom and either below middle												

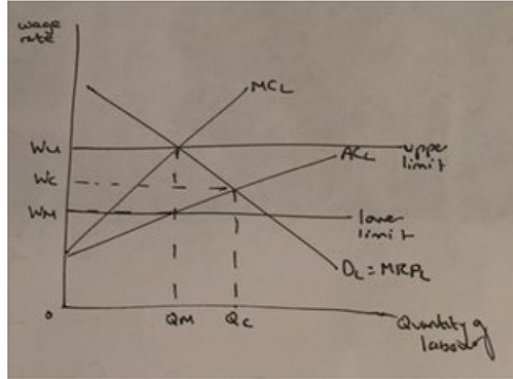
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			balance for this level or at middle of level (depending on number of marks available) On the borderline of this level and the one below At bottom of level		
			Total	25	
12			A	1 (AO2)	Rationale A Correct: $MR = (£20,176 - £20,188)$. B This is marginal cost ($MC = £14,180 - £14,003$). C This assumes MR is equal to the price. D This is profit ($Profit = £20,176 - £14,180$).
			Total	1	
13			D	1 (AO3)	Rationale A A maximum wage would be imposed below the equilibrium wage rate for it to have any impact. B The labour market is not a monopsony as $ACL = MCL$ C This would result in labour supply increasing and the wage rate falling. D Correct: members of unions would refuse to supply their labour below a target wage rate, causing the wage rate to increase.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
14			Using the information in Extract 1, explain why the fall in the real wages of doctors after 2010 'goes against the traditional economic theory of derived demand'. <i>Award 1 mark for an understanding of the concept of derived demand:</i> The demand for doctors is determined by the demand for healthcare. The greater the demand the higher the wage should be. <i>Award 1 mark for linking the theory to Extract 1:</i> There has been an 'ever rising demand for healthcare', which means the demand for doctors has been rising and their wages should therefore have been increasing.	2 (AO1 x 1) (AO2 x 1)	Whilst not required an explained diagram showing that the demand for doctors shifting right should lead to doctors' wages rising is acceptable for two marks.
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
15	Evaluate, using an appropriate diagram, the extent to which trade unions solve labour market failure in situations of bilateral monopoly such as those outlined in Extract 1. Level 3 (11–15 marks) Good knowledge and understanding of what is meant by a bilateral monopoly. Good – strong analysis of how trade unions help to overcome labour market failure in the bilateral monopoly case. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of whether trade unions reduce labour market failure in the bilateral monopoly case, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of what is meant by a bilateral monopoly. Reasonable analysis of trade unions help to overcome labour market failure in the bilateral monopoly case. There is correct analysis largely in the form of single links.	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	 The NHS is a monopsony employer. Assuming it employs workers at the profit maximising level of employment (where $MCL = MRPL$) employment will be at Q_M. It pays a wage at the corresponding point on the labour supply curve – W_M. This is labour market failure because doctors earn below the competitive equilibrium wage at W_C. The government exploits its monopsony power by paying a low wage knowing that doctors cannot seek employment elsewhere. This may explain why doctors earn less than others in similarly skilled professions. The BMA acts as the monopoly supplier of labour, refusing to supply its labour below the target wage rate. If the union targets a wage rate of W_C, the government will be forced to raise the wage rate of doctors to the competitive equilibrium, solving labour market failure. Equilibrium employment also increases to the competitive equilibrium because the employer no longer has an incentive to restrict employment, because they have to pay a wage of W_C regardless. Unions will only solve labour market failure if they are targeting the competitive equilibrium wage rate. They could feasibly target a wage at the upper limit. This would not solve labour market failure as doctors would now earn significantly above the competitive equilibrium.

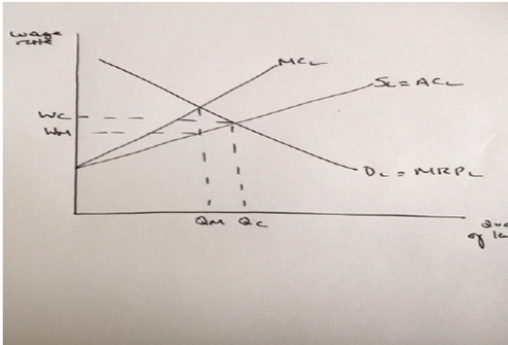
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether trade unions reduce labour market failure in the bilateral monopoly case, considering both sides/comparing alternatives <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of what is meant by a bilateral monopoly. Limited analysis of how trade unions help to overcome labour market failure in the bilateral monopoly case.. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of whether trade unions reduce labour market failure in the bilateral monopoly case, in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit.		This depends upon relative bargaining power – in the UK union membership has been declining, meaning unions may only be able to achieve a wage slightly above the monopsony wage, not fully solving labour market failure. Although doctors' unions remain strong, meaning this is unlikely to happen. There may not have been labour market failure in the first place. Doctors wages may be lower because of the non-pecuniary benefits associated with being a doctor – many people want to supply their labour because of the vocational aspect of the job. Whether the NHS is a monopsony employer is questionable – doctors can work in the private sector or abroad. Although the NHS might have monopsony power they may well not use this to pay below the competitive equilibrium wage – the government is not a profit maximiser.
			Total	15	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
16			Explain, using a diagram, one factor that would explain the wage differentials illustrated in Fig. 3.1. <i>Award 1 mark for stating a factor:</i> • Stating a factor (1) • Labour market diagram with axes (wage rate and quantity of labour) and curve labels (1) • Wage differential clearly illustrated through differences in S or D (1) • Explanation linking the factor to Fig 3.1 and diagram (1)	4 (AO1 x 1) (AO2 x 2) (AO3 x 1)	Accept any valid determinant of wage differentials, including differences in qualification and skill, MRPL, length of training. Eg. Differences in qualification and skill (1), correctly labelled diagram showing more inelastic supply for consultants than drivers (2), explanation that it takes years of challenging study to become a consultant, meaning labour supply is more inelastic than for a driver and that the wage rate will therefore be higher for a consultant (1). Axes must clearly refer to a labour market to be credited – ie. no mark for price and quantity. Reference to the professions in Fig. 3.1 is required for full marks to be awarded.
			Total	4	
17			Identify and explain one piece of evidence in Extract 2 of Tata Steel acting as a monopsony employer. <i>One mark for identifying the relevant evidence from Extract 2:</i> • Tata Steel now employs 17,000 of the 20,000 steel workers in the UK. <i>One mark for linking this to the theory of monopsony:</i> • A monopsony employer is a monopoly buyer of labour – the fact that Tata employs 85% of workers in the UK steel industry demonstrates it is a dominant buyer of labour.	2 (AO1 x 1) (AO2 x 1)	
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
18	Evaluate whether Tata Steel's position as a monopsony employer is responsible for labour market failure in the steel industry. Level 2 (5–8 marks) Good knowledge and understanding of the model of monopsony. Good – strong analysis of how monopsonies can be responsible for labour market failure. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether Tata steel is causing labour market failure because it is a monopsony employer, considering both sides/comparing alternatives. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment. Strong evaluation should include a supported judgment. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of the model of monopsony. Limited – reasonable analysis of how monopsonies can be responsible for labour market failure. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will have correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of	8 (AO1 x 1) (AO2 x 1) (AO3 x 2) (AO4 x 4)	<i>Analysis</i> Tata steel may be causing labour market failure as a monopsonist employer.  Tata Steel employs workers at the profit maximising level of employment where $MRPL = MCL$. It pays a wage on the supply curve of labour at W_m. This represents labour market failure as workers are paid below the competitive wage/see cuts to their pensions because ultimately Tata is the dominant firm demanding their labour. Tata deliberately restricts employment below the competitive equilibrium at Q_m because hiring additional workers is very costly, as they have to raise the wage of all previous workers employed, meaning they restrict employment to keep wages low. This causes the labour market failure of unemployment. The level of labour market failure depends upon the extent to which steel workers are able to transfer to work in other industries – given the lack of manufacturing employment available in the UK this does suggest Tata may be able to exploit its monopsony power. Job losses in steel, however, are not coming because of monopsony power but because of competitive pressures – falling prices mean falling MR which mean falling MRPL, which will cause unemployment to rise and wages to fall, even if Tata is

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Limited evaluation of whether Tata steel is causing labour market failure because it is a monopsony employer, in the form of an unsupported statement or no evaluation. 0 marks no response or no response worthy of credit Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		operating as an employer would in a competitive labour market.
			Total	8	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
19	Extract 3 presents a number of policy options available to the government to improve labour market flexibility. Evaluate the effectiveness of one of these policies as a method of increasing labour market flexibility. Level 3 (11–15 marks) Good knowledge and understanding of what is meant by labour market flexibility. Good – strong analysis of how government policy can be used to increase labour market flexibility. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the extent to which government policy is effective in increasing labour market flexibility, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of what is meant by labour market flexibility. Reasonable analysis of how government policy can be used to increase labour market flexibility. There is correct analysis largely in the form of single links. These address the question but are not	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	Reduce employment protection through promoting zero hours contracts: • Gives firms numerical and temporal flexibility, which is likely to improve productive efficiency (reduces likelihood of over-staffing). • Could reduce costs of production improving competitiveness of UK firms, contributing to economic growth. • Employment may increase as firms more willing to hire workers on flexible contracts. • <i>Evaluation – could increase uncertainty, which would increase the average propensity to save and reduce economic growth. Productivity may fall if workers are demotivated by working on these contracts.</i> Implement a points based immigration system: • The government could make immigration decisions based on the skills held by workers, favouring those who have skills in areas of skills shortages. • This is a cheap method to address skills shortages as means workers do not have to be trained and has no time lags. • Can boost productive capacity of the economy and reduce costs of firms. • <i>Evaluation – means the government will have to support the domestic citizens struggling from structural unemployment who lack the right skills. Could put a strain on public services. UK has a limited ability to impose this policy given there is free movement of labour within the EU – this therefore could only apply to non-EU migration.</i> Raise the school leaving age: • Individuals suffer from myopia – they do not fully realise the benefits of education and therefore under-

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the extent to which government policy is effective in increasing labour market flexibility considering both sides/comparing alternatives <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of what is meant by labour market flexibility. Limited analysis of how government policy can be used to increase labour market flexibility. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the extent to which government policy is effective in increasing labour market flexibility in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit.		consume in the free market, meaning they do not acquire sufficient transferable skills. • Raising the school leaving age will force individuals to acquire more qualifications and skills, potentially increasing functional flexibility and making the supply of labour more wage elastic. • <i>Evaluation – this only works if the education actually increases labour market flexibility; further generic academic education may not do this. It is an expensive policy with time lags.</i> Provide more apprenticeships: • Individuals don't want to train because they are myopic and would rather earn an income. Firms will under-provide training because they fear workers will be poached. • Providing tax breaks to firms who provide apprenticeships will increase the number of apprenticeships available, leading to a better trained workforce. • <i>Evaluation – despite many apprenticeships being available in the UK many individuals do not take advantage of them because they would rather be in full time employment.</i> Reduce marginal tax rates: • Individuals are not incentivised to work more hours when the wage rate increases because of high marginal tax rates. This means firms find it difficult to get workers to work more hours. • Cutting marginal tax rates will mean individuals keep more of their income, strengthening incentives to respond to wage changes and improving labour market flexibility. • <i>Evaluation – this policy will have to be funded from somewhere, which will incur an opportunity cost.</i>
			Total	15	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
20			C	1 (AO2)	Rationale A With a perfectly inelastic supply curve all income is Economic Rent so a parallel shift in the LS curve will alter the economic rent, statement 1 is therefore untrue and with a perfectly inelastic supply curve labour will be supplied whether the wage rate is 0 or infinity so statement 2 is true. B With a perfectly inelastic supply curve all income is Economic Rent so a parallel shift in the LS curve will alter the economic rent, statement 1 is therefore untrue and for statement 2 to be true the labour supply curve would need to be perfectly elastic, it isn't so statement 2 is therefore also untrue. C Correct: With a perfectly inelastic supply curve no income is Transfer Earnings so a parallel shift in the LS curve will not alter the Transfer Earnings, statement 1 is therefore true and with a perfectly inelastic supply curve labour will be supplied whether the wage rate is 0 or infinity so statement 2 is also true. D With a perfectly inelastic supply curve no income is Transfer Earnings so a parallel shift in the LS curve will not alter the Transfer Earnings, statement 1 is therefore true and for statement 2 to be true the labour supply curve would need to be perfectly elastic, it isn't so statement 2 is therefore untrue.
			Total	1	
21			C	1 (AO3)	Rationale A 20p = increase in wage. B £20.20 = new average wage. C Correct: Total cost of 50 workers = £1,000. Total cost of 51 workers = $51 \times £20.20 = £1030.20$ Marginal cost = $£1030.20 - £1000 = £30.20$. D £1030.20 = Total cost of employing 101 workers.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
22			B	1 (AO1)	Rationale A This would increase productivity, lowering unit labour costs B Correct: If individuals are less likely to be fired for poor performance productivity is likely to be lower, resulting in high unit labour costs C Low costs of living are associated with low wages, meaning unit labour costs will be low D Low tax rates generally reduce wage costs for firms, meaning unit labour costs will be low
			Total	1	
23			D	1 (AO1)	Rationale A This is a determinant of wage elasticity of demand B This is a determinant of wage elasticity of demand C This would cause the quantity of labour supplied to respond less than proportionally to a change in the wage rate D Correct: labour supply will be wage elastic when workers can easily enter a profession when the wage rate rises as a result of not having to undertake lengthy training
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
24			Using Fig. 2.1, explain what has happened to migration in the UK between 2000 and 2016. <i>Award two marks for an explanation of what has happened to net migration over the period:</i> • Net migration increased between 2000 and 2016 (2) • Immigration has increased faster than emigration (2) <i>Award one mark for a statement about what has happened to immigration or emigration over the period:</i> • The level of immigration and/or emigration has increased (1) OR • The level of immigration was higher than the level of emigration throughout the period (1) OR • Migration has increased (1)	2 (AO2 x 2)	No credit should be given for a description of the data year by year. <u>Examiner's Comments</u> This question differentiated across the mark range. While most candidates were credited one mark for identifying that immigration had increased over the period, a significant number of answers could have been improved by explaining the overall trend rather than just giving a year by year description of what had happened to immigration and emigration. This has already improved over the years but further emphasis is still perhaps required in centres to make sure candidates do not fall into a trap of describing rather than explaining the data. Responses also suggested that candidates were more comfortable with the concept of immigration than migration, with few comparing what had happened to immigration and emigration to then explain what had happened to migration. A small minority of candidates used the term net migration, with most of those who got 2 marks doing so by explaining that immigration was increasing faster than emigration.
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
25	Evaluate the impact on the UK labour market and wider economy of the UK ending the free movement of labour with EU countries. Level 3 (11–15 marks) Good knowledge and understanding of the impact of changing immigration policy on the labour market and wider economy. Good - strong analysis of the impact of changing immigration policy on the labour market and wider economy. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the extent to which changing immigration policy will benefit/harm the labour market and wider economy, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of the impact of changing immigration policy on the labour market and wider economy. Reasonable analysis of the impact of changing immigration policy on the labour	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	Guidance: • Whilst most candidates will start their answers with the negative impact of the end of free movement of labour, the reverse approach is equally valid – the benefits of ending free movement of labour can be credited as analysis if presented first. • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. • Arguments for and against the benefits of free movement of labour that are not focused on the ending of free movement should not be credited – NAQ. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for recognition of the costs or benefits of ending the free movement of labour that are mentioned in the case study: ◦ 2007 expansion of EU meant immigration into the UK from low wage countries spiralled out of control. ◦ High levels of immigration puts pressure on public services, pushes house prices up and depresses wages and employment opportunities for low skilled workers. ◦ UK can take control of its borders. ◦ EU immigrants are younger than native population, are more likely to work and pay taxes than claim benefits and in doing so addressing the problems an ageing population could cause the economy. ◦ Healthcare and construction rely on immigrants to fill skills shortages –

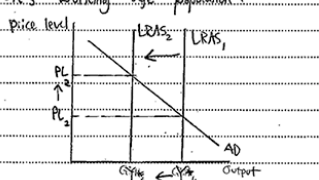
Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	market or and wider economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the extent to which changing immigration policy will benefit/harm the labour market or wider economy. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of the impact of changing immigration policy on the labour market or wider economy. Limited analysis of the impact of changing immigration policy on the labour market or and wider economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the extent to which changing immigration policy will benefit/harm the labour market or wider economy or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks No response worthy of credit.		immigration increases labour market flexibility. <i>Analysis and Evaluation requires candidates to go beyond what is given in the case study.</i> Analysis may include: • Labour supply decreases/becomes more inelastic, pushing wages up and increasing costs of production. • International price competitiveness falls with higher labour costs. • Less attractive place for FDI when labour costs are higher/less skilled labour force. • Productive capacity falls as a result of a smaller labour force (LRAS shifts left). • Dependency ratio increases with an ageing population. • Budget deficit may increase as a result of falling tax revenue. • Reduction in remittances as a result of less immigrant workers will improve the current account. • AD falls as a result of less consumption from immigrants, harming growth and unemployment. Evaluation may include: • Wages/employment for low skilled workers increases, reducing poverty/inequality. • Higher domestic employment reduces government spending on benefits/reduces budget deficit/allows spending elsewhere. • AD increases as a result of higher wages, improving material standards of living. • Reduction in emigration means less human capital flight. • Demand for housing will fall, decreasing prices. • Less pressure on public services can reduce the budget deficit/allow spending elsewhere.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					• Reduces the number of people who have access to welfare benefits may reduce government spending. • Skills shortages may reduce if a points based immigration system replaces free movement. • The government can offset the effects of skills shortages caused by falling immigration by instigating supply side policy. <u>Examiner's Comments</u> Candidates used the information in Extract 2 to good effect to produce well focused answers, with only a small minority of candidates writing about the general costs and benefits of the UK leaving the EU rather than concentrating on the impact of the end of free movement of labour. The vast majority attempted to base their answers around economic theory rather than unsupported political views. It is important that candidates read the question carefully; not doing this in some cases resulted in answers that considered the advantages and disadvantages of free movement of labour with scant reference to the ending of free movement. Some candidates could have improved their answers by going beyond re-stating the information given in Extract 2, the majority used this as a springboard for detailed analysis of the impact on both the UK labour market and the wider economy. Although diagrams were not required nor necessary to achieve full marks, a number of candidates used them to good effect to support their analysis – in Exemplar 4, the candidate explains that reduced immigration will shift long run aggregate supply and follows this with an excellent chain of analysis considering the impact on inflation and the current account of the balance of payments. Equally impressive microeconomic analysis was offered by some candidates, such as shifting labour supply to the left to show an increase in wages and an explanation of the likely

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
			consequences of this, or the demand curve for housing shifting to the left as a result of the population falling. Exemplar 4 Ending the free movement of labour will lead to a fall in the level of immigration into the UK. Extract 2 suggests that high levels of immigration had "pushed up house prices", suggesting that reducing this immigration will lead to a lowering of house prices, and a fall in the variation in house prices across the UK. Lower house prices will lead to an increased ability and willingness of workers to move between different regions of the UK. This will lead to an increase in geographical mobility. This will result in an increased ability of labour to respond to changes in labour market conditions (such as changing wage rate or changing demand for labour) leading to an increase in geographical labour market flexibility, (as a result of the reduced immigration). Ending the free movement of labour leading to levels of immigration will also lead to a fall in the size of the UK's working age population.  This will lead to a fall in the productive capacity of the UK and cause LRAS to shift from LRAS₁ to LRAS₂ (reducing capacity from Y₁ to Y₂). This will lead to a fall in the level of long run economic growth, leading to a fall in incomes and potentially increased unemployment. The inward shift in LRAS will also lead to an increase in the general level of prices over time from P₁ to P₂. This will lead to an increase in (cost push) inflation in the UK economy, and may also lead to lower levels of international competitiveness of UK firms, leading to a fall in the value of net exports and a worsening of the UK's current account deficit on the BOP.
	Total	15	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
26			D	1 (AO1)	Rationale A Corporation tax is a tax on profit so does not affect labour costs. B An increase in output would only cause a decrease in unit labour costs if caused by an increase in labour productivity – if output has simply risen because more workers have been employed then unit labour costs will be unchanged. C This would increase unit labour costs. D Correct: This would increase labour productivity, reducing unit labour costs.
			Total	1	
27			C	1 (AO1)	Rationale A This would make labour supply inelastic which is likely to lead to higher wages. B This is likely to lead to higher wages as workers enjoy a union 'mark-up'. C Correct: This would make labour demand more wage elastic, which reduces the bargaining power of workers and leads to lower wages. D This would lead to higher wages as there would be a high demand for labour.
			Total	1	

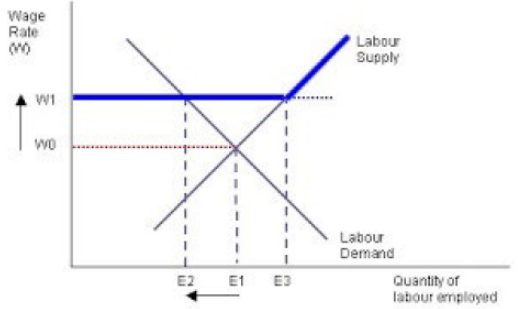
Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
28	The percentage of employees in the UK choosing to be a member of a trade union, has fallen from 27% to 20% in the last 20 years. Across different industries, this figure ranges from 48% in the education sector to 3% in the food service sector. Evaluate, using an appropriate diagram(s), whether trade union activity helps to encourage the efficient operation of the UK labour market. Level 5 (21–25 marks) Good – Strong knowledge and understanding of how trade union activity helps to encourage the efficient operation of the UK labour market. Strong analysis of how trade union activity helps to encourage the efficient operation of the UK labour market. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether trade unions help to improve efficiency in the UK labour market, weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of how trade union activity helps to encourage the efficient operation of the UK labour market.	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	For a mark at the top of each level the response should be in context. Trade unions are organisations of workers which seek to: • Protect & improve real living standards by campaigning for real wage increases • Protect workers against unfair dismissal and other employment rights • Promote better health & safety conditions • Protect pension rights of members • Counter-balance any possible monopsony power of employers. In theory, trade unions might encourage the efficient operation of the UK labour market by exercising their collective bargaining power to partially offset the monopsony power of an employer in a particular occupation and in doing so achieve a mark-up on wages compared to those on offer to non-union members. For this to happen, a union must have some control over the total labour supply available to an industry. In the past this was possible if a union operated a closed shop agreement with an employer. However, trade union reforms in the 1980s brought an end to the closed shop in a bid to increase the flexibility of the labour market. Closed shops still exist in a few occupations, for example the actor's union, but for the vast majority of workers this is no longer a relevant issue. In the diagram below, a monopsonist with a large number of employees in the industry will force wages down to OE and restrict employment to OA. The arrival of union activity will see the labour supply curve kinked. This produces a discontinuity in the marginal cost curve.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Strong analysis of how trade union activity helps to encourage the efficient operation of the UK labour market. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether trade unions help to improve efficiency in the UK labour market, weighing up both sides/comparing alternatives but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of how trade union activity helps to encourage the efficient operation of the UK labour market. Good analysis of how trade union activity helps to encourage the efficient operation of the UK labour market. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether trade unions help to improve the efficiency of a labour market considering both sides/comparing alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i>		The monopsonist has an incentive to employ extra workers as long as MRP (D) is greater than MC. It will therefore employ OB workers at a wage rate OF. In this situation of bilateral monopoly, theory suggests that union activity will lead to an increase in both wages and employment levels. Trade unions might not encourage the efficient operation of the UK labour market, however. In a competitive market, such as the food service sector, union activity may force up the real wage rate and reduce employment levels.

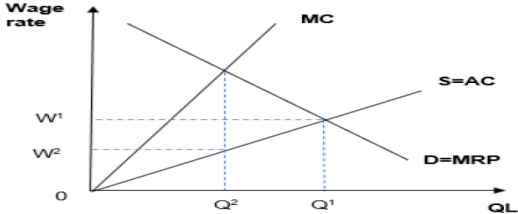
Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Level 2 (6–10 marks) Good knowledge and understanding of how trade union activity helps to encourage the efficient operation of the UK labour market. Reasonable analysis of how trade union activity helps to encourage the efficient operation of the UK labour market. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether trade unions help to improve the efficiency of a labour market considering both sides/comparing alternatives. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of how trade union activity helps to encourage the efficient operation of the UK labour market. Limited or no analysis of how trade union activity helps to encourage the efficient operation of the UK labour market. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether trade unions help to improve the efficiency of a labour in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i>		 The union-negotiated wage rate increase to W_1 forces a 'kink' in the supply curve of labour which, <i>ceteris paribus</i>, leads to a fall in employment from E_1 to E_2. Unemployment of E_3-E_2 will be created. However, the incentives created by a combination of increased remuneration and performance related deals could impact positively on productivity. This could consequently shift the MRP outward, as a result of higher MPP, sufficiently to prevent job losses. Even to the point where equilibrium is restored at $W_1 E_3$. It is often the case that employers will insist on some form of performance-related element to any pay settlements, for example an agreement on measures designed to boost productivity, however. The balance of power between employers and trade union in wage negotiations depends on a range of factors: • The rate of unemployment - when labour is scarce, either locally or nationally, and there are perceived shortages of skilled workers, then the balance of power tilts towards unions. • Competitive pressures in product markets - when a firm is enjoying a dominant monopoly position and high levels of supernormal profit, the unions will know that the employer has the financial resources to meet a more generous wage settlement. When demand for a product is price inelastic, so the demand for labour will tend to be relatively inelastic, this gives the union the opportunity to boost the total

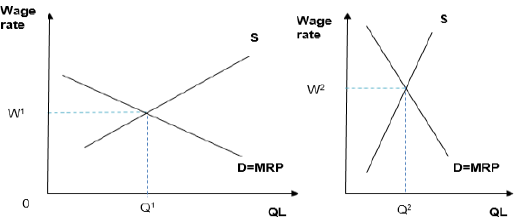
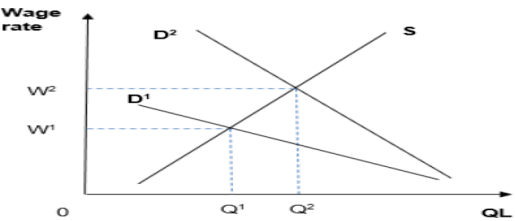
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		earnings of its members through collective bargaining. The reverse is true in markets where demand for the final output is highly price elastic. • Profit margins - if profit margins are being squeezed, the employer is far less likely to give in to large pay claims. ◦ Unions are less powerful when the demand for labour is falling. When unemployment is rising, growing fears for job security also affect pay demands. <u>Examiner's Comments</u> This Section of the paper requires the use of diagrams to analyse and evaluate the issues raised by the questions. Question 2 was answered more frequently than Question 3, but the quality of the responses was more variable. A major issue in responses to Question 2 was the accuracy of the diagrams produced by candidates – sometimes this was the result of incorrect labelling of AR, MR and MC curves, but in other cases it was because areas of profit were not shown correctly and the long run profit maximising position in monopolistic competition was not understood. A clear focus on the different meanings of economic efficiency allowed higher ability candidates to make good headway with the question and responses to Question 3 were more confident in the selection and use of appropriate diagrams. There was impressive analysis and evaluation of the effects on labour market efficiency of trade unions, including the impact on wages, productivity and countering the bargaining power of monopsonistic employers.
Descriptor	Award mark														
Consistently meets the criteria for this level	At top of level														
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)														
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)														
On the borderline of this level and the one below	At bottom of level														
			Total	25											

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
29	The gender pay gap for full-time workers in the UK has fallen from 17% to 9% in the past 20 years. However, the gap is still over 30% in many engineering and manufacturing jobs but is much smaller, or even negative, in many service sector jobs, including in the health sector. Evaluate, using an appropriate diagram(s), whether wage differentials are mainly caused by the presence of a monopsonistic employer. Level 5 (21–25 marks) Good – Strong knowledge and understanding of monopsonistic employers in the context of wage differentials. Strong analysis of how a monopsonistic employer may affect wage determination/differentials. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether wage differentials are caused by monopsonistic employers and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of monopsonistic employers in the context of wage differentials. Strong analysis of how a monopsonistic employer may affect wage	25 (AO1 × 6 AO2 × 6 AO3 × 6 AO4 × 7)	For a mark at the top of each level the response should be in context. In a perfect labour market with perfect labour mobility, there would be no wage differentials. This would then mean that if pilots were paid more than bricklayers, bricklayers would train to be pilots, so increasing supply of pilots until wages were equalised. In reality this is unlikely to happen. One reason may be the monopsony power of the employer. This is a situation where, in the industry or occupation, an employer is able to exploit its market power to force down wage levels. For example, 90% of teachers in the UK are directly or indirectly employed by the state; most car workers are employed by a small number of large monopolistic or oligopolistic firms. The marginal cost of employing an extra unit of labour is higher than the average cost for the monopsonist. This is because the firm has to raise wage rates to attract extra labour into the industry or occupation. The higher wage now needs to be paid to all the other workers in the firm.  A perfectly competitive firm, assuming profit maximisation, would pay a wage at W^1. However, the monopsonist will pay W^2 (where $MC=MRP$). This may explain why employees in industries where the labour market is less competitive receive lower wages. However, there are other causes of wage differentials. Skills/qualifications – highly skilled workers

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	determination/differentials. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of monopsonistic employers in the context of wage differentials. Good analysis of how a monopsonistic employer may affect wage determination/differentials. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of the link between monopsonistic employers and wage differentials without considering extent and alternatives. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of monopsonistic employers in the context of wage differentials.		will be scarcer (wage inelastic supply) and demand will also be more wage inelastic.  The value of MRP – some workers may be more efficient (higher MPP) or have the ability to generate more revenue for the firm (e.g. top sports stars or actors). In the diagram below, these workers will be paid W^2 instead of W^1.  Differences in acquired human capital - wages should help to compensate people for making an investment in education. There is an opportunity cost in acquiring qualifications - measured by the current earnings given up by staying in education. Labour is not geographically mobile - employees may not want to, or be able to, move to another area where wages are higher. Labour is not occupationally mobile – some occupations require specific skills. The UK education system is still catching up (and is still behind the rest of the world in some cases) in terms of encouraging/enabling girls to study the necessary subjects to enter the higher skilled (and paid) jobs. In addition, many women due to culture, religion or personal choice do not seek the higher responsibility/paid jobs. Many women also choose to leave, temporarily or permanently, the labour market, either to raise children or to look after elderly family

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Reasonable analysis of how a monopsonistic employer may affect wage determination/differentials. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the link between monopsonistic employers and wage differentials without considering extent and alternatives. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of monopsonistic employers or wage differentials. Limited or no analysis of how a monopsonistic employer may affect wage determination/differentials. It There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of the impact of monopsonistic employers in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit.		members. Trade Union protection and collective bargaining - many employees in low paid jobs do not have trade unions acting on their behalf to protect them from the power of employers. Trade unions may also deliberately restrict supply of labour in order to raise wages. Employer discrimination - this may apply to ethnic, gender, age or disability groups Workers may not wage maximise – wages are only part of the net benefit gained from employment. Some jobs may be unpleasant, dangerous or have no fringe benefits, so that employees seek higher wages. Employees with jobs which possess the opposite characteristics may accept lower wages. A supported judgement might include: • Wage differentials are caused by a number of competing factors at any one time. For example, the presence of the gender pay gap may still be due to discrimination and the types of jobs which women typically do. The decline in this gender gap overall may be a sign that this is changing. However, the fact that the gender gap is so high in engineering and manufacturing may be caused by the lack of occupational and geographical mobility. • The better performance in service jobs may be caused by the higher levels of human capital acquired by women in these occupations or, perversely, it may be caused by the significantly lower wages of men in these occupations due to the monopsonistic nature of many service industries, especially health and retail. • The size of the elasticity of demand for and supply of labour is vital. For example, if demand for labour is wage inelastic then wages cannot be held down as easily than in a wage elastic

Mark Scheme

Question			Answer/Indicative content		Marks	Guidance
			Descriptor	Award mark		occupation.
			Consistently meets the criteria for this level	At top of level		
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below	At bottom of level		
			Total		25	