

GCE

Economics

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

Advanced GCE

Mark Scheme for June 2015

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





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

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Annotations

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

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

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

'**SEEN**' to be inserted on every blank page

Subject-specific Marking Instructions

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

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

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

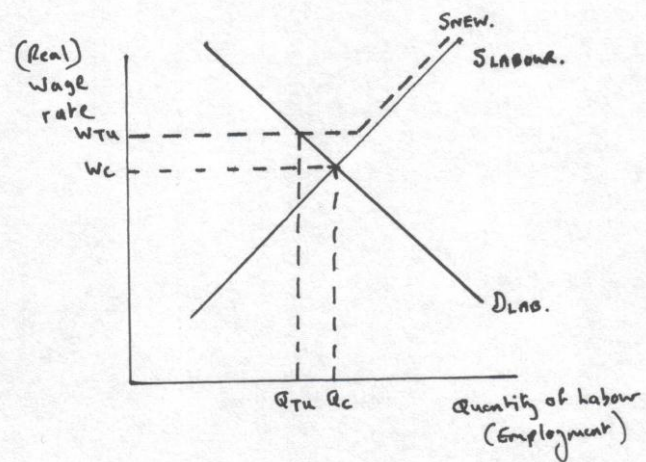
Level 3: Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.

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

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

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

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

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

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

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

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

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

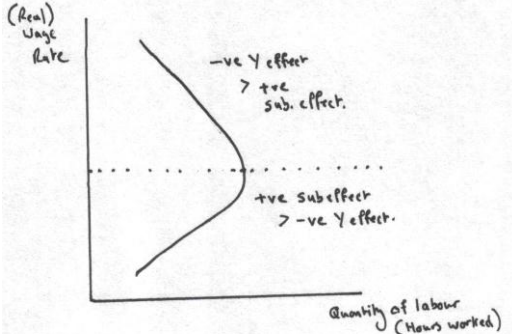
Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>areas of relatively high unemployment. Similarly, if firms are not able to recruit appropriate skilled labour then they will recruit and train internally. Firms could also focus on the importing of skills via migration as an alternative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

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

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

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

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

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

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

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