

**Economics**

Advanced GCE

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

**Mark Scheme for January 2011**

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

Question		Expected Answer	Mark	Rationale/Additional Guidance
	(d) (i)	<p><b>Using the information in Fig 1</b>  <b>Describe the main changes in the labour supply between 1971 and 2007.</b></p> <p>1 mark for any correct observation.</p> <ul style="list-style-type: none"> <li>• The male participation rate has fallen.</li> <li>• The female participation rate has increased.</li> <li>• The overall participation rate has remained fairly constant with no obvious long term increase or decrease.</li> <li>• There is a reduction in the gap between male and female employment rates.</li> </ul>	[2]	<p>Do not reward candidates who merely give a year by year account of the changes shown in figure 1.</p> <p>Do not reward candidates who refer to numbers of men/women/all as opposed to percentages.</p>
	(ii)	<p><b>Comment on the causes of these changes in the labour supply.</b></p> <p>Factors affecting female participation include:</p> <ul style="list-style-type: none"> <li>• Government policy.</li> <li>• Social trends</li> <li>• Reduction in discrim.</li> <li>• Changing economic structure.</li> </ul> <p>Male participation has been mostly influenced by changes in the structure of the economy.  The shrinking primary and secondary sectors in comparison to the growing tertiary sector.</p> <p>Commentary should come in the form of some expression of the relative degree of influence each factor may have had.  <b>Up to 2 marks</b> for an answer that passes some explanation of the main causes of these changes.  <b>Up to a further 3 marks</b> for a candidate that offers a commentary of the relative significance of the causes mentioned in the first part of the answer, and rounds off with an evaluative summary or conclusion.</p>	[5]	<p>Candidates <b>MUST</b> offer at least two causes to gain the (2) marks for explanation.</p> <p>A candidate that offers only one cause, but goes on to provide relevant commentary can still score (4) marks.</p> <p>Full marks can be awarded to an answer which deals only with females or males.</p> <p>If answer deals with causes but has no commentary – MAX 2.</p>

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

Question	Expected Answer	Mark	Rationale/Additional Guidance
2 (a)	<p><b>Analyse how the concepts of diminishing returns and diseconomies of scale can be applied to leisure markets.</b></p> <p>Candidates might be expected to build up an answer along the lines of the example offered below.</p> <p>A clear definition and explanation of the two terms would be an obvious starting point. This may be supported by an appropriately drawn and well labelled diagram or set of diagrams which will help candidates illustrate their analytical skill and ability to utilise the Economist's toolbox. Alternatively or in addition candidates may choose to offer arithmetic examples to illustrate the two concepts.</p> <p>What is vital is that the candidates identify diminishing returns as a <b>short run</b> concept and diseconomies of scale as a <b>long run</b> idea. Also it could be pointed out that the former concept is related directly to output and the latter concept is a cost consequence.</p> <p>This all needs to be illustrated in the context of a leisure market in order to secure the higher marks especially in levels 2 and 3.</p> <p><u>Level 3 (9–15)</u> For an explanation of the difference between the concepts of diminishing returns and diseconomies of scale. For a 13+ mark candidates must offer clear analysis of the difference between the concepts two in the context of a leisure market.</p> <p><u>Level 2 (5–8)</u> For an application of knowledge as to the difference between the concepts of diminishing returns and diseconomies. For a 7+ mark candidates must offer a clear recognition that the former is a short term phenomenon and the latter long term, and/or this is illustrated in the context of a leisure market.</p>	[15]	<p>Correct coverage of only one of the concepts in the question, including analysis – max of bottom of Level 3.</p> <p>Analysis illustrating both concepts should be precise in terms of</p> <ul style="list-style-type: none"> <li>• declining marginal product as additional units of variable factor are employed</li> <li>• increase in <b>long run average</b> costs as output increases.</li> </ul>

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

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



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

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

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

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p><u>Level 2 (3–4)</u> For an application of knowledge and understanding of how the MRP theory influences the determination of wages.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.</p> <p><u>Level 1 (1–2)</u> For a knowledge of how the MRP theory influences the determination of wages.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.</p>		
4	<p><b>(a)</b></p> <p><b>Analyse two policies that have been used by the UK government to improve labour market flexibility.</b></p> <p>Candidates might be expected to build up an answer along the lines of the example offered below. One starting point might be to clarify exactly what is meant by labour market flexibility.</p> <p>A flexible labour market being one that adjusts quickly and smoothly to changes in demand and supply conditions. There are a variety of types of flexibility including numerical, temporal, locational, functional and wage.</p> <p>There are a number of steps the government can take in order to increase the flexibility of the labour force. These could include:</p> <ul style="list-style-type: none"> <li>• Increasing labour market information.</li> <li>• Providing training and education specific to the needs of firms.</li> </ul>	[15]	<p>NMW <b>can only</b> be rewarded if the candidate produces a clear argument as to how its presence specifically improves LMF. For instance – creating an incentive for work and therefore providing employers with a greater choice of labour. Similar argument applies to any-anti discrimination legislation – must focus on increased incentive to work.</p> <p>Only one relevant policy considered with analysis can achieve bottom of level 3.</p> <p>Higher level analysis might connect increased flexibility with an increase in the elasticity of supply of labour.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<ul style="list-style-type: none"> <li>• Altering marginal tax rates and benefits.</li> <li>• Removing employment protection legislation.</li> <li>• Subsidising geographical mobility.</li> </ul> <p>An appropriately used and well labelled diagram or set of diagrams will help candidates illustrate their analytical skill and ability to utilise the Economist's toolbox.</p> <p><u>Level 3 (9–15)</u> For an explanation of how the government methods to improve labour market flexibility are intended to work. For a 13+ mark candidates must offer clear analysis of how each method should operate in improving flexibility.</p> <p><u>Level 2 (5–8)</u> For an application of knowledge as to how the government methods to improve labour market flexibility are intended to work. For a 7+ mark candidates must offer a clear real world application.</p> <p><u>Level 1 (1–4)</u> For knowledge and understanding of how the government methods to improve labour market flexibility are intended to work.</p>		
(b)	<p><b>Discuss how successful such intervention has been in the UK economy.</b></p> <p>There is no doubt that over the long term there have been enormous improvements in the flexibility of the UK labour market. The UK has a more flexible labour market than most of its fellow EU member countries.</p> <p>The heart of the discussion here must lie around the extent to which this improvement has been down to deliberate steps taken by the government and what others powerful influences may have been at play.</p>	[20]	<p>To score a mark of 11+, candidates must have offered valid economic analysis upon which the discussion is based. If this is not provided, then the attempted discussion is no more than an unexplained assertion and therefore scores a maximum level 2 mark.</p> <p>11-13 marks for a predominantly one sided discussion underpinned by relevant economic analysis.</p> <p>14-15 marks for a two sided discussion with analysis on both sides.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p>Other influences that may be considered are:</p> <ul style="list-style-type: none"> <li>• The impact of global competition</li> <li>• The changed structure of the economy.</li> <li>• The changed composition of labour demand. Eg the change in nature of final goods and services being demanded.</li> <li>• The changed composition of the supply of labour. Eg the increase in female participation.</li> </ul> <p>The question is potentially very wide ranging .Nonetheless, as long as candidates analyse the situation and offer a judgement, a high mark can be secured.</p> <p><u>Level 4 (a) (16–20)</u> For a discussion that includes a judgement of the extent to which government intervention has been successful in the UK economy. The judgement must be clear as to the degree of success achieved.</p> <p><u>Level 4 (b) (11–15)</u> For a balanced discussion of the extent to which government intervention has been successful in the UK economy. A discussion lacking balance should receive no more than 13 marks.</p> <p>Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p>		<p>16+ marks for a two sided discussion, underpinned by economic analysis with a clear judgement provided.</p> <p>An answer which provides adv and disadv of various policies to improve flexibility is likely to be providing a L4 answer assuming that analysis is involved.</p> <p>Intervention <b>must</b> refer to labour market flexibility as stated in question. General answers based on govt. intervention in general are unlikely to be relevant.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p><u>Level 3 (5–10)</u> For an analysis of government intervention in the UK economy. For 8+ marks there should be an in-depth analysis of the effectiveness of at least one policy</p> <p>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.</p> <p><u>Level 2 (3–4)</u> For an application of knowledge and understanding of the success of government intervention in the UK economy.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.</p> <p><u>Level 1 (1–2)</u> For a knowledge of how successful government policy has been in the UK economy</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.</p>		

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