

Economics

Advanced GCE

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

Mark Scheme for June 2011

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Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annesley
NOTTINGHAM
NG15 0DL

Telephone: 0870 770 6622
Facsimile: 01223 552610
E-mail: publications@ocr.org.uk

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

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

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

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

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

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p><i>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.</i></p> <p>Level 3 (5–10) For an analysis of how improvements in labour productivity can increase the international competitiveness of a firm. Or how factors other than improvements in labour productivity can change the international competitiveness of a firm. For 8+ marks there should be an in-depth analysis of how at least one factor changes international competitiveness. <i>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.</i></p> <p>Level 2 (3–4) For an application of knowledge and understanding of how improvements in labour productivity can increase the international competitiveness of a firm. <i>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.</i></p> <p>Level 1 (1–2) For a knowledge of how improvements in labour productivity can increase the competitiveness of a firm. <i>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.</i></p>		

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

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

Question	Expected Answer	Mark	Rationale/Additional Guidance
(b)	<p>Discuss the extent to which non-pecuniary benefits may affect the supply of labour to various occupations.</p> <p>The link with part (a) could be easily made here via a consideration of the long run. Here supply of labour is influenced by the net advantages of the job. These include pecuniary and non-pecuniary features of the job.</p> <p>A sensible place to start an answer would be with an explanation of the difference between pecuniary and non-pecuniary benefits or factors.</p> <p>There are a wide range of non-pecuniary benefits/factors that impact on the supply of labour both positively and negatively and it would be appropriate here for candidates to analyse these impacts and offer a judgement as to their significance both singularly and collectively.</p> <p>Of course, on an individual level the influence of non-pecuniary benefits/factors may vary greatly, this may be mentioned by candidates and be rewarded. However, it is the supply of all labour to various markets that is the main focus of the question.</p> <p>Non pecuniary benefits/factors might include:</p> <ul style="list-style-type: none"> • The convenience and flexibility of hours • Status • Chance of promotion • Holidays • Flexibility of location • Qualifications and skills • Job security • Pleasantness of the job • Perks and fringe benefits • Quality and quantity of training on offer • Location • Firm's performance. 	[20]	

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p>Level 4 (a) (16–20) For a discussion that includes a judgement of the extent to which non-pecuniary benefits/factors affect the supply of labour. The judgement must be clear as to the degree of influence non-pecuniary benefits/factors may impact on labour supply.</p> <p>Level 4 (b) (11–15) For a balanced discussion of the impact of non-pecuniary benefits/factors on the supply of labour. A discussion lacking balance should receive no more than 13 marks. <i>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.</i></p> <p>Level 3 (5–10) For an analysis of the impact of non-pecuniary benefits/factors on the supply of labour. For 8+ marks there should be a valid analysis of at least one occupation. <i>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.</i></p> <p>Level 2 (3–4) For an application of knowledge and understanding of the impact of pecuniary and non-pecuniary benefits/factors on the supply of labour. <i>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.</i></p>		

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p>Level 1 (1–2) For a knowledge of either pecuniary and/or non-pecuniary benefits/factors which affect the supply of labour. <i>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.</i></p>		

Question	Expected Answer	Mark	Rationale/Additional Guidance
4 (a)	<p>Analyse the causes and consequences of two types of labour market failure.</p> <p>Candidates might be expected to build up an answer along the lines of the example offered below. Candidates would be expected to firstly clearly explain what they understand by labour market failure and then go on to analyse two potential causes. Surpluses and shortages of certain forms of labour being the most obvious consequences. Reasons for market failure may include:</p> <ul style="list-style-type: none"> • Abuse of labour market power, monopoly and/or monopsony/oligopsony • Imperfect information • Trade unions • Skill shortages • Unemployment • Economic inactivity • Discrimination • Immobility of labour. Occupational and/or geographical • Attachment between workers and employers • Inertia <p>Level 3 (9–15) For an explanation of two causes/consequences of failure in labour markets. For a 13+ mark candidates must offer a clear analysis of the causes and consequences of market failure.</p> <p>Level 2 (5–8) For an application of knowledge of two types of labour market failure in terms of causes/consequences. For a 7+ mark candidates must offer a clear real world application of either.</p> <p>Level 1 (1–4) For knowledge and understanding of labour market failure.</p>	[15]	<p>Reward well explained and differentiated explanations of occupational and geographical immobility of labour as two separate types of labour market failure.</p> <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>

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

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p><i>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.</i></p> <p>Level 3 (5–10) For an analysis of the impact of labour market failure on the wider economy. For eight or more marks there should be an in-depth analysis of at least one impact and how it affects the economy. <i>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.</i></p> <p>Level 2 (3–4) For an application of knowledge and understanding of how labour market failure impacts on the wider economy. <i>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.</i></p> <p>Level 1 (1–2) For a knowledge of how labour market failure impacts upon the wider economy. <i>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.</i></p>		

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

OCR Customer Contact Centre

14 – 19 Qualifications (General)

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

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Head office
Telephone: 01223 552552
Facsimile: 01223 552553

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