



Oxford Cambridge and RSA

**Monday 20 May 2019 – Morning**

**A Level Economics**

**H460/01 Microeconomics**

**Time allowed: 2 hours**



**You may use:**

- a scientific or graphical calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

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Last name

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**INSTRUCTIONS**

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

**INFORMATION**

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [ ].
- Quality of extended responses will be assessed in questions marked with an asterisk (\*).
- This document consists of **20** pages.

2  
SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

### The UK labour market in the 21<sup>st</sup> century

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)
<b>Employed</b>	30 923	109	363
<b>Unemployed</b>	1 418	-63	-224
<b>Economically Inactive (Aged 16–64)</b>	8 812	-17	-13

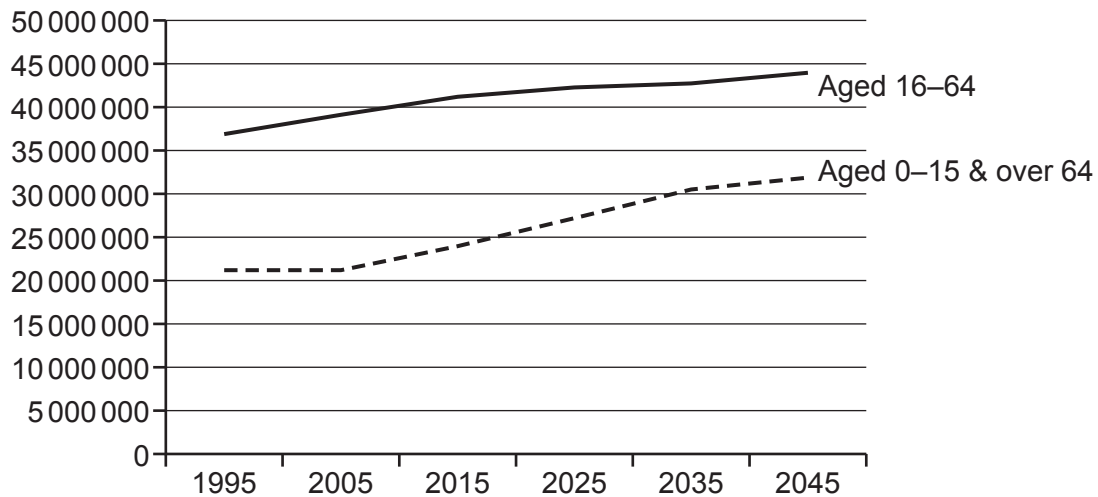
*Source: ONS*

5 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.
- 10 • 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).
- 15 • 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%.
- 20 • 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.

50 It is no more than a coincidence that these concerns are happening in a year which recognises  
 the 75<sup>th</sup> 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  
 55 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
<b>Original income</b>	<b>6 286</b>	<b>13 988</b>	<b>17 410</b>	<b>25 754</b>	<b>31 424</b>	<b>39 293</b>	<b>47 963</b>	<b>59 622</b>	<b>68 968</b>	<b>117 960</b>	<b>42 867</b>
+ 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
<b>Gross income</b>	<b>12 673</b>	<b>21 736</b>	<b>25 723</b>	<b>32 074</b>	<b>35 918</b>	<b>43 022</b>	<b>50 331</b>	<b>61 905</b>	<b>70 972</b>	<b>119 504</b>	<b>47 386</b>
– Direct taxes	1 528	2 299	3 046	4 794	5 940	7 931	10 091	13 199	15 534	29 991	9 435
<b>Disposable income</b>	<b>11 145</b>	<b>19 437</b>	<b>22 677</b>	<b>27 280</b>	<b>29 978</b>	<b>35 091</b>	<b>40 239</b>	<b>48 706</b>	<b>55 438</b>	<b>89 513</b>	<b>37 951</b>

Source: ONS

Answer **all** the questions.

- 1 (a) Calculate the participation rate in the UK labour market for the period from June to August 2017.

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- (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.

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

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**SECTION B**

Answer **EITHER** question 2 **OR** question 3.

**EITHER**

- 2\* Price ceilings have been used in a number of different markets, ranging from rented housing in New York to food in Venezuela and the cap on energy bills in the UK.

Evaluate, using an appropriate diagram(s), the impact a price ceiling may have on the level of consumer and producer surplus in a market. **[25]**

**OR**

- 3\* Netflix is the world's largest online video subscription service. By 2018, after only 10 years in existence, it had 137 million worldwide subscribers. 65% of online video viewers in the USA watch Netflix at least once a month.

Evaluate, using an appropriate diagram(s), the advantages and disadvantages of a perfectly contestable market. **[25]**

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## SECTION C

Answer **EITHER** question 4 **OR** question 5.

**EITHER**

- 4\* Within any economy there is a great deal of specialisation by firms in the production of particular products, such as manufacturing of cars by BMW, Nissan and Toyota in the UK. Each manufacturer employs the division of labour. So some workers design cars, some test them, others market them and the assembly itself is divided into many different tasks.

Evaluate the extent to which specialisation and the division of labour might help in addressing the basic economic problem. **[25]**

**OR**

- 5\* From 2007 to 2016, nearly 1000 international mergers took place involving a UK business. Many of these were examples of horizontal integration. One of the largest was between British Airways and the Spanish airline, Iberia.

Evaluate the potential economic consequences for economic agents of a horizontal merger. **[25]**

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**ADDITIONAL ANSWER SPACE**

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

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