



GuideMyGrades

— YOUR GOALS. OUR EXPERTISE. —

OCR A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

The Labour Market

OCR A-level Economics H460 — Topic MICRO 5

28 questions · 204 marks · Mark schemes included

 guidemygrades.com

 [@Guidemygrades](https://www.instagram.com/Guidemygrades)

 [@Guidemygrades](https://twitter.com/Guidemygrades)

 [@Guidemygrades](https://www.youtube.com/Guidemygrades)

 info@guidemygrades.com

 Piccadilly Business Centre, Unit C, Aldow Enterprise Park
Blackett Street, Manchester, M12 6AE

HOW TO USE THIS BOOKLET

Questions run from the lowest mark tariff to the highest, so similar questions sit together.

Click any row below to jump straight to that question.

On every question page, click the header (top right) to jump to its mark scheme, and click again to jump back.

Mark schemes are collected together at the end of this booklet, cropped from the genuine OCR mark-scheme grid.

28 questions · 204 marks · lowest tariff first

QUESTION	SOURCE	MARKS	PAGE
1. Section A (MCQ), Q15	H460/03 Themes in Economics · June 2022	1 mark	5
2. Section A (MCQ), Q23	H460/03 Themes in Economics · June 2022	1 mark	6
3. Section A (MCQ), Q7	H460/03 Themes in Economics · June 2023	1 mark	7
4. Section A (MCQ), Q12	H460/03 Themes in Economics · May 2024	1 mark	8
5. Section A (MCQ), Q13	H460/03 Themes in Economics · May 2024	1 mark	9
6. Section A (MCQ), Q17	H460/03 Themes in Economics · October 2020	1 mark	10
7. Section A (MCQ), Q25	H460/03 Themes in Economics · October 2020	1 mark	11
8. Section A (MCQ), Q6	H460/03 Themes in Economics · October 2020	1 mark	12
9. Section A (MCQ), Q17	H460/03 Themes in Economics · October 2021	1 mark	13
10. Section B, Q31	H460/03 Themes in Economics · June 2022	2 marks	15
11. Section B, Q32	H460/03 Themes in Economics · June 2022	2 marks	17
12. Section A, Q1(a)(i)	H460/01 Microeconomics · June 2023	2 marks	19
13. Section A, Q1(a)(ii)	H460/01 Microeconomics · June 2023	2 marks	22
14. Section A, Q1(a)	H460/01 Microeconomics · May 2019	2 marks	25
15. Section A, Q1(b)	H460/01 Microeconomics · May 2019	2 marks	29
16. Section A, Q1(c)	H460/01 Microeconomics · May 2019	2 marks	33
17. Section A, Q1(c)	H460/01 Microeconomics · June 2023	4 marks	38
18. Section B, Q32	H460/03 Themes in Economics · October 2021	4 marks	41
19. Section A, Q1(d)	H460/01 Microeconomics · June 2023	8 marks	43
20. Section A, Q1(e)	H460/01 Microeconomics · May 2019	8 marks	47
21. Section A, Q1(e)*	H460/01 Microeconomics · June 2023	12 marks	54
22. Section B, Q35	H460/03 Themes in Economics · June 2019	15 marks	60
23. Section B (Essay), Q33*	H460/03 Themes in Economics · June 2022	15 marks	63
24. Section B (Essay), Q33*	H460/03 Themes in Economics · June 2023	15 marks	66
25. Section B (Essay), Q3*	H460/01 Microeconomics · May 2022	25 marks	70
26. Section C (Essay), Q5*	H460/01 Microeconomics · May 2024	25 marks	75
27. Section B (Essay), Q3*	H460/01 Microeconomics · October 2020	25 marks	80
28. Section B (Essay), Q2*	H460/01 Microeconomics · October 2021	25 marks	85

QUESTIONS

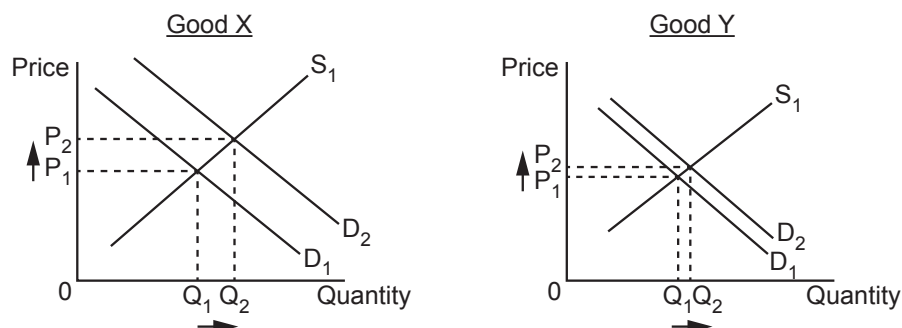
28 questions · 204 marks · lowest tariff first

1-MARK QUESTION

9 questions in this booklet

8

- 14 The diagrams below show how the markets for goods X and Y respond to a change in one of the determinants of demand. What might it be possible to conclude from this?



- A Demand for good X is more cross elastic than the demand for good Y
- B Demand for good X is more income elastic than demand for good Y
- C Demand for good X is more price elastic than the demand for good Y
- D Supply of good X is more price elastic than supply of good Y

Your answer

[1]

- 15 What would cause the demand for labour to increase?

- A An increase in the minimum wage
- B An increase in the price of complementary factors of production
- C An increase in the price of the product the labour produces
- D An increase in unit labour costs

Your answer

[1]

11

- 22 A firm is considering increasing its output from 239 to 240 units of a good. What is the marginal cost of doing this?

Quantity	Average Cost
238	£360
239	£356
240	£362
241	£371
242	£382

- A £1.51
B £6
C £1796
D £86 880

Your answer

[1]

- 23 What is most likely to cause the international price competitiveness of a country's goods and services to decrease?

- A Exchange rate depreciates
B Minimum wage decreases
C Productivity increases
D Trade union power increases

Your answer

[1]

5

7 What is **one** of the roles of a firm?

- A To produce goods and/or services
- B To regulate markets
- C To supply labour
- D To tax households

Your answer

[1]

8 What does a country's terms of trade show?

- A The ability to produce a good at a lower opportunity cost than another country
- B The ability to produce a good using fewer resources than another country
- C The ratio of export prices to import prices
- D The value of exports minus the value of imports

Your answer

[1]

9 Which of these types of government spending is an example of current expenditure?

- A Construction of a new railway line
- B Flood defence schemes
- C New hospital equipment
- D Universal credit

Your answer

[1]

7

11 The quantity of output at which a monopoly firm will maximise revenue is where:

- A $AC = AR$
- B $AC = MC$
- C $MC = MR$
- D $MR = 0$

Your answer

[1]

12 A worker is paid £12 per hour to assemble bicycle parts in a factory.
The worker's productivity increases from 20 units per hour to 24 units per hour.

What is the change in the unit labour cost to the firm?

- A Decreases by £0.10
- B Decreases by £0.33
- C Decreases by £0.50
- D Increases by £0.83

Your answer

[1]

13 In a free market for labour if the supply of labour becomes more inelastic which of these will fall?

- A Economic rent
- B Marginal revenue product
- C Transfer earnings
- D Wages

Your answer

[1]

7

11 The quantity of output at which a monopoly firm will maximise revenue is where:

- A $AC = AR$
- B $AC = MC$
- C $MC = MR$
- D $MR = 0$

Your answer

[1]

12 A worker is paid £12 per hour to assemble bicycle parts in a factory.
The worker's productivity increases from 20 units per hour to 24 units per hour.

What is the change in the unit labour cost to the firm?

- A Decreases by £0.10
- B Decreases by £0.33
- C Decreases by £0.50
- D Increases by £0.83

Your answer

[1]

13 In a free market for labour if the supply of labour becomes more inelastic which of these will fall?

- A Economic rent
- B Marginal revenue product
- C Transfer earnings
- D Wages

Your answer

[1]

8

15 What efficiencies occur in the model of perfect competition in the long run?

- A Allocative and dynamic efficiency
- B Allocative, dynamic and productive efficiency
- C Allocative, productive and X efficiency
- D Allocative, dynamic, productive and X efficiency

Your answer

[1]

16 What is classed as narrow money?

- A Commercial banks' deposits at the Bank of England
- B Government bonds with a maturity of less than five years
- C Money held in savings accounts
- D Retail deposits held current accounts

Your answer

[1]

17 What would cause unit labour costs to decrease?

- 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

Your answer

[1]

12

25 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]

26 In 2014, researchers found that up to a third of women were not taking folic acid supplements in the first 12 weeks of their pregnancy. In response the government increased its efforts to provide information to women about the need for folic acid to aid the healthy development of their baby's spine. On the basis of this information, what type of good is folic acid?

- A A demerit good
- B A good with negative externalities of consumption
- C A good with positive externalities of consumption
- D A merit good

Your answer

[1]

27 Using the table below, what was the inflation rate in 2017?

Year	Consumer Price Index
2014	98.2
2015	100.0
2016	103.4
2017	101.9
2018	103.6

- A -1.50%
- B -1.45%
- C 1.47%
- D 1.90%

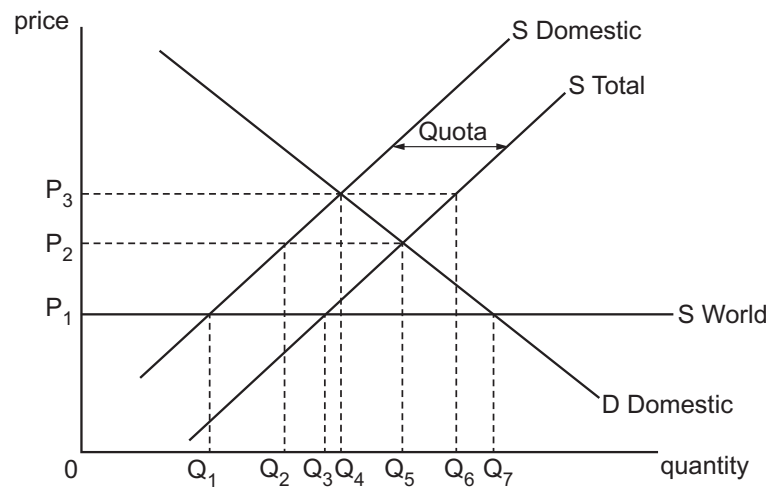
Your answer

[1]

© OCR 2020

4

- 5 The diagram below shows the market for textiles in the US. Suppose the market was initially operating at a price of P_1 , when no restrictions on trade were in place. What is the new market equilibrium as a result of the US imposing a quota on textiles imports?



Option	Price	Domestic Production	Quantity Consumed
A	P_1	Q_1	Q_3
B	P_2	Q_2	Q_5
C	P_2	Q_5	Q_5
D	P_3	Q_4	Q_6

Your answer

[1]

- 6 What is the reward to labour as a factor of production?

- A Interest
- B Profit
- C Rent
- D Wages

Your answer

[1]

9

- 15 Output is one way of measuring the level of economic activity in an economy. What is another way?

- A Employment
- B Expenditure
- C Human Development Index
- D Inflation

Your answer

[1]

- 16 The table below outlines how import and export prices in a country have changed over time. How much has the country's terms of trade increased by between 2000 and 2020?

Year	Price index of exports	Price index of imports
2000	103	117
2020	109	119

- A 3.6%
- B 4.1%
- C 10.8%
- D 13.0%

Your answer

[1]

- 17 A local restaurant employs five staff – a manager, a chef, a barman and two waiters. What economic theory is this an example of?

- A Bilateral monopoly
- B Comparative advantage
- C Derived demand for labour
- D Division of labour

Your answer

[1]

2-MARK QUESTIONS

7 questions in this booklet

17

It is argued that a decrease in labour market flexibility is partly responsible for the widening regional inequality. A significant cause of this is the increasing gap between house prices in different parts of the country, as shown by the data in Fig. 1.2. This makes it harder for individuals to relocate to high wage areas, preventing market forces from reducing wage differentials.

10

Fig. 1.2

House Prices by Region 1995–2020 (base year = 1995)

Region	Average House Price Index		
	1995	2005	2020
East Midlands	100	216	294
East of England	100	211	345
London	100	209	422
North East	100	203	262
North West	100	177	248
Northern Ireland	100	193	259
Scotland	100	164	255
South East	100	198	316
South West	100	229	318
Wales	100	184	243
West Midlands	100	180	254
Yorkshire and the Humber	100	179	250

There are other factors that further explain labour market inflexibility. The UK's relatively poor transport infrastructure, individuals being unaware of job opportunities outside of their local area and perhaps more significantly a lack of transferable skills trapping workers in low paid jobs, all contribute to the problem. However, it could be said that technological progress is helping to make the labour market more flexible over time.

15

Some therefore argue there are other causes of regional wage differentials beyond the flexibility of the labour market. Whilst the proportion of the workforce with an undergraduate degree has been rising in recent decades, this is not spread evenly across the country, with much of the increase concentrated in London. The nature of employment has changed dramatically in recent years; technology has seen labour substituted in some semi-skilled occupations whilst at the same time increasing demand for highly skilled workers. This makes the distribution of skills across the UK particularly relevant. The impact of large multinationals in the financial and scientific sectors typically choosing to locate in the South of England must also not be underestimated.

20

25

21

- 31 Using the data in **Fig. 1.1**, describe the regional wage differentials that exist in the UK.

.....

.....

.....

.....

.....

..... [2]

- 32 Using the data in **Fig. 1.2**, calculate how much faster house prices rose in London compared to the North East between 2005 and 2020.

.....

.....

.....

.....

.....

..... [2]

- 33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether low labour market flexibility is the main cause of wage differentials between the North and South. [15]

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

17

It is argued that a decrease in labour market flexibility is partly responsible for the widening regional inequality. A significant cause of this is the increasing gap between house prices in different parts of the country, as shown by the data in Fig. 1.2. This makes it harder for individuals to relocate to high wage areas, preventing market forces from reducing wage differentials.

10

Fig. 1.2

House Prices by Region 1995–2020 (base year = 1995)

Region	Average House Price Index		
	1995	2005	2020
East Midlands	100	216	294
East of England	100	211	345
London	100	209	422
North East	100	203	262
North West	100	177	248
Northern Ireland	100	193	259
Scotland	100	164	255
South East	100	198	316
South West	100	229	318
Wales	100	184	243
West Midlands	100	180	254
Yorkshire and the Humber	100	179	250

There are other factors that further explain labour market inflexibility. The UK's relatively poor transport infrastructure, individuals being unaware of job opportunities outside of their local area and perhaps more significantly a lack of transferable skills trapping workers in low paid jobs, all contribute to the problem. However, it could be said that technological progress is helping to make the labour market more flexible over time.

15

Some therefore argue there are other causes of regional wage differentials beyond the flexibility of the labour market. Whilst the proportion of the workforce with an undergraduate degree has been rising in recent decades, this is not spread evenly across the country, with much of the increase concentrated in London. The nature of employment has changed dramatically in recent years; technology has seen labour substituted in some semi-skilled occupations whilst at the same time increasing demand for highly skilled workers. This makes the distribution of skills across the UK particularly relevant. The impact of large multinationals in the financial and scientific sectors typically choosing to locate in the South of England must also not be underestimated.

20

25

21

31 Using the data in **Fig. 1.1**, describe the regional wage differentials that exist in the UK.

.....

.....

.....

.....

.....

..... [2]

32 Using the data in **Fig. 1.2**, calculate how much faster house prices rose in London compared to the North East between 2005 and 2020.

.....

.....

.....

.....

.....

..... [2]

33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether low labour market flexibility is the main cause of wage differentials between the North and South. [15]

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

2

SECTION A

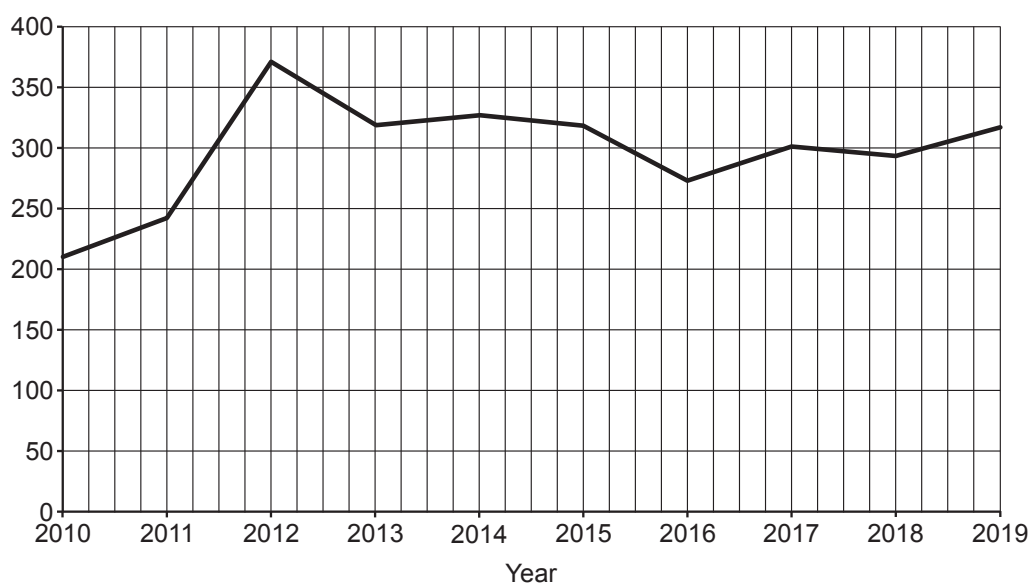
Read the stimulus material and answer **all** the parts of Question 1.

Wage differentials in the USA

Research shows the ratio of Chief Executive pay ('remuneration') to employee remuneration in the USA has increased significantly since 2010 (see **Fig. 1**). In 2019, Chief Executives at the largest 350 firms in the USA earned 320 times more than a typical employee.

Fig. 1

Chief Executive-to-employee remuneration ratio (USA), 2010–2019



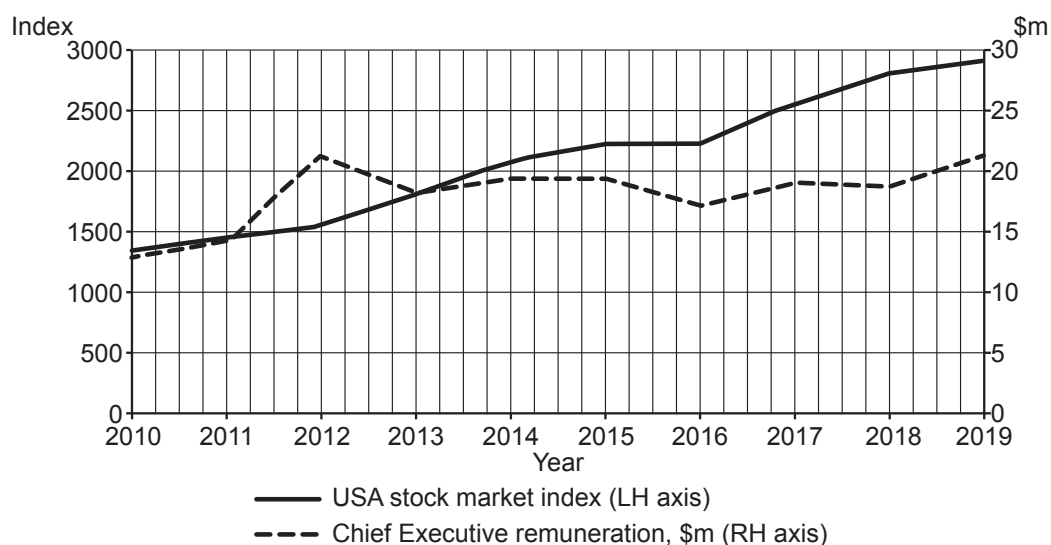
Source: Economic Policy Institute

Chief Executives earned an average of \$21 million in 2019, a 14% increase since 2018. In that year, the US stock market price index, which shows changes in the share prices of US companies also rose (see **Fig. 2**).

5

Fig. 2

Chief Executive remuneration and stock market performance (USA), 2010–2019



Source: Economic Policy Institute

© OCR 2023

3

This growth in Chief Executive remuneration has happened while wage growth for most Americans has remained relatively low. To distract attention from their remuneration, some Chief Executives have taken a voluntary cut in salary. However, this approach is criticised as much of their remuneration comes from share options (the right to buy shares at set prices) and bonuses. Other policies that may help reduce the remuneration gap between Chief Executive and employee have been suggested, including: 10

- reinstating a higher marginal income tax rate at the very top income levels;
- setting corporation tax rates higher for firms that have higher ratios of Chief Executive-to-employee remuneration; 15
- allowing greater use of 'say on pay' which allows a firm's shareholders to vote on Chief Executive remuneration.

Society is increasingly recognising who are the essential workers. They harvest our food, stock our grocery shelves and deliver goods all over the country. They look after our children and care for us when we are ill. They are also amongst the lowest-paid workers in the country. Why is this? 20
And, in contrast, why are relatively non-essential jobs, in such areas as entertainment and sport, so well paid?

The answer to these questions is not clear. The traditional economics answer would be to consider the concepts of demand and supply. Many of the essential occupations are easy to enter. For example, a cleaner might not require specialist knowledge or training. 25

A different answer could be 'scalability'. A cleaner, however skilled at their job, can only clean one building at a time. However, an entertainer can provide value to millions of people at the same time, thanks to television or the Internet. In many jobs, such as those in entertainment or sport, it is difficult to measure marginal physical productivity and so pay is set in a seemingly random way, often based on power. 30

This 'power differential' is a new area of research to explain wage differentials. This suggests that skill levels are not good predictors of wage levels, as there are big differences in wage between workers who do the same job.

In the USA, business leaders and politicians have worked together to weaken trade unions, oppose minimum wage legislation and remove labour market restrictions. Marshall Steinbaum, an economist at the University of Utah, suggests that the decline in workers' rights and bargaining power of trade unions alongside the greater power of employers is the main reasons for growing wage differentials. He says that "[The power] American bosses have to dictate take-it-or-leave-it terms to workers is the core reason our 'essential' workforce are underpaid." 35

Source: Adapted from *The Washington Post* (6/4/20) & *Pressenza* (19/8/20)

4

1 (a) Refer to Fig. 2.

- (i) Describe the relationship between Chief Executive remuneration and stock market performance between 2010 and 2019.

.....

.....

.....

..... [2]

- (ii) Explain why this relationship may exist.

.....

.....

.....

..... [2]

- (b) A marginal income tax rate is one example of the marginal principle used by economists.

Explain what is meant by the economic concept of 'the margin'.

.....

.....

.....

..... [2]

2

SECTION A

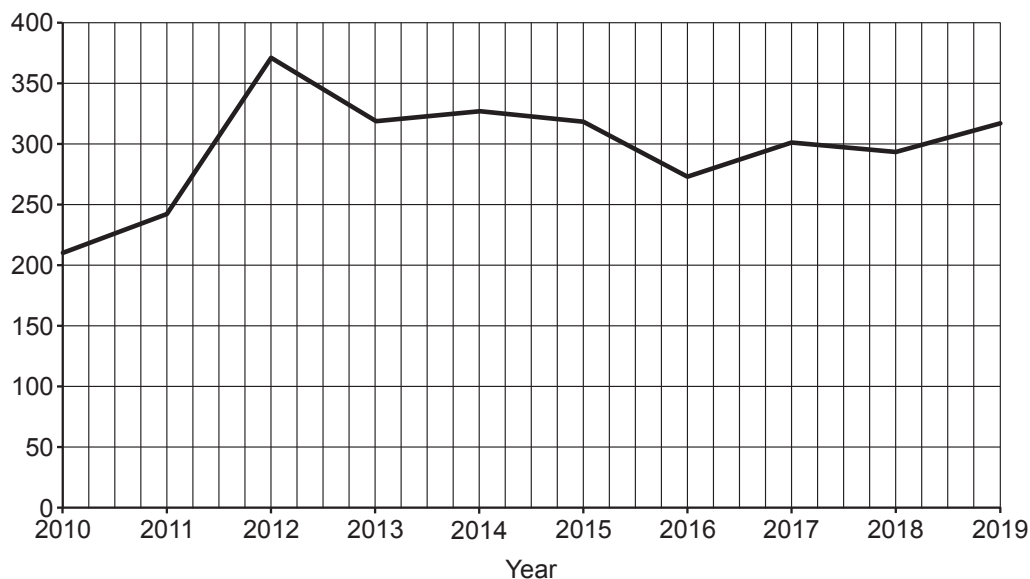
Read the stimulus material and answer **all** the parts of Question 1.

Wage differentials in the USA

Research shows the ratio of Chief Executive pay ('remuneration') to employee remuneration in the USA has increased significantly since 2010 (see **Fig. 1**). In 2019, Chief Executives at the largest 350 firms in the USA earned 320 times more than a typical employee.

Fig. 1

Chief Executive-to-employee remuneration ratio (USA), 2010–2019



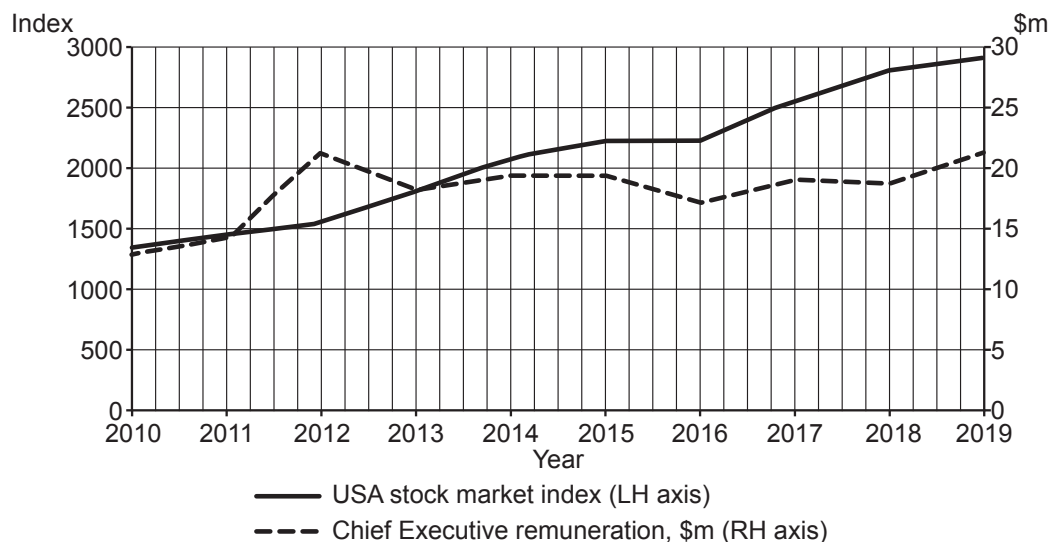
Source: Economic Policy Institute

Chief Executives earned an average of \$21 million in 2019, a 14% increase since 2018. In that year, the US stock market price index, which shows changes in the share prices of US companies also rose (see **Fig. 2**).

5

Fig. 2

Chief Executive remuneration and stock market performance (USA), 2010–2019



Source: Economic Policy Institute

© OCR 2023

3

This growth in Chief Executive remuneration has happened while wage growth for most Americans has remained relatively low. To distract attention from their remuneration, some Chief Executives have taken a voluntary cut in salary. However, this approach is criticised as much of their remuneration comes from share options (the right to buy shares at set prices) and bonuses. Other policies that may help reduce the remuneration gap between Chief Executive and employee have been suggested, including: 10

- reinstating a higher marginal income tax rate at the very top income levels;
- setting corporation tax rates higher for firms that have higher ratios of Chief Executive-to-employee remuneration; 15
- allowing greater use of 'say on pay' which allows a firm's shareholders to vote on Chief Executive remuneration.

Society is increasingly recognising who are the essential workers. They harvest our food, stock our grocery shelves and deliver goods all over the country. They look after our children and care for us when we are ill. They are also amongst the lowest-paid workers in the country. Why is this? 20
And, in contrast, why are relatively non-essential jobs, in such areas as entertainment and sport, so well paid?

The answer to these questions is not clear. The traditional economics answer would be to consider the concepts of demand and supply. Many of the essential occupations are easy to enter. For example, a cleaner might not require specialist knowledge or training. 25

A different answer could be 'scalability'. A cleaner, however skilled at their job, can only clean one building at a time. However, an entertainer can provide value to millions of people at the same time, thanks to television or the Internet. In many jobs, such as those in entertainment or sport, it is difficult to measure marginal physical productivity and so pay is set in a seemingly random way, often based on power. 30

This 'power differential' is a new area of research to explain wage differentials. This suggests that skill levels are not good predictors of wage levels, as there are big differences in wage between workers who do the same job.

In the USA, business leaders and politicians have worked together to weaken trade unions, oppose minimum wage legislation and remove labour market restrictions. Marshall Steinbaum, an economist at the University of Utah, suggests that the decline in workers' rights and bargaining power of trade unions alongside the greater power of employers is the main reasons for growing wage differentials. He says that "[The power] American bosses have to dictate take-it-or-leave-it terms to workers is the core reason our 'essential' workforce are underpaid." 35

Source: Adapted from *The Washington Post* (6/4/20) & *Pressenza* (19/8/20)

4

1 (a) Refer to Fig. 2.

- (i) Describe the relationship between Chief Executive remuneration and stock market performance between 2010 and 2019.

.....

.....

.....

..... [2]

- (ii) Explain why this relationship may exist.

.....

.....

.....

..... [2]

- (b) A marginal income tax rate is one example of the marginal principle used by economists.

Explain what is meant by the economic concept of 'the margin'.

.....

.....

.....

..... [2]

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 21st 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)
Employed	30 923	109	363
Unemployed	1 418	–63	–224
Economically Inactive (Aged 16–64)	8 812	–17	–13

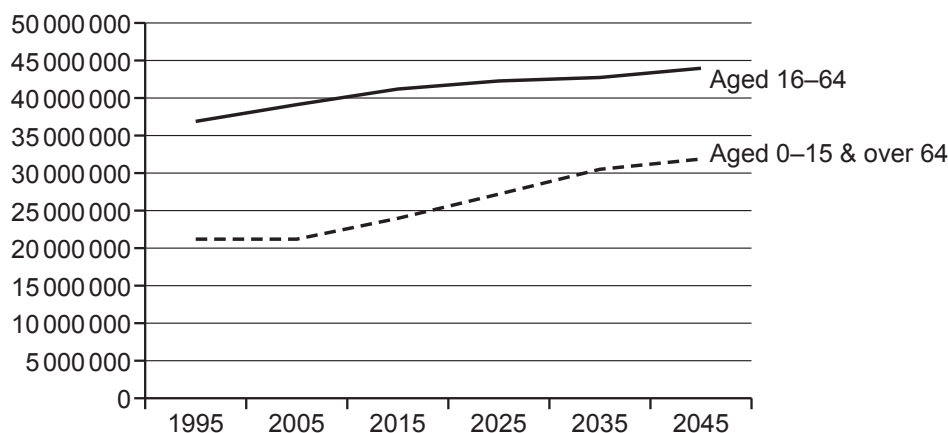
Source: ONS

- 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.

3

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.

4

- 50 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
- 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
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

5

Answer **all** the questions.

- 1 (a) 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]

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 21st 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)
Employed	30 923	109	363
Unemployed	1 418	–63	–224
Economically Inactive (Aged 16–64)	8 812	–17	–13

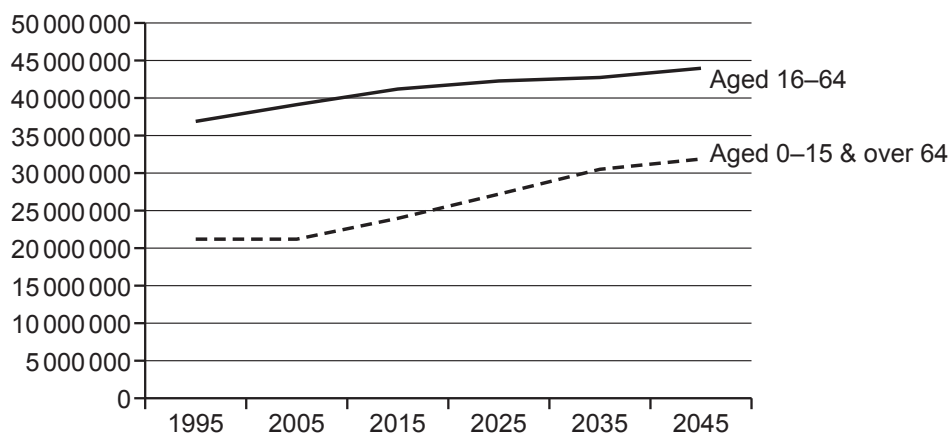
Source: ONS

- 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.

3

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.

4

- 50 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
- 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
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

5

Answer **all** the questions.

- 1 (a) 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]

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 21st 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)
Employed	30 923	109	363
Unemployed	1 418	–63	–224
Economically Inactive (Aged 16–64)	8 812	–17	–13

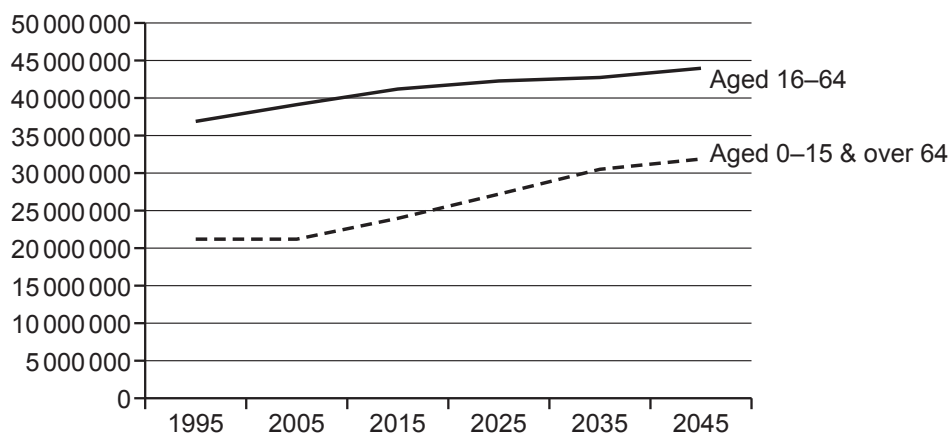
Source: ONS

- 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.

3

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.

4

- 50 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
- 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
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

5

Answer **all** the questions.

- 1 (a) 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]

4-MARK QUESTIONS

2 questions in this booklet

2

SECTION A

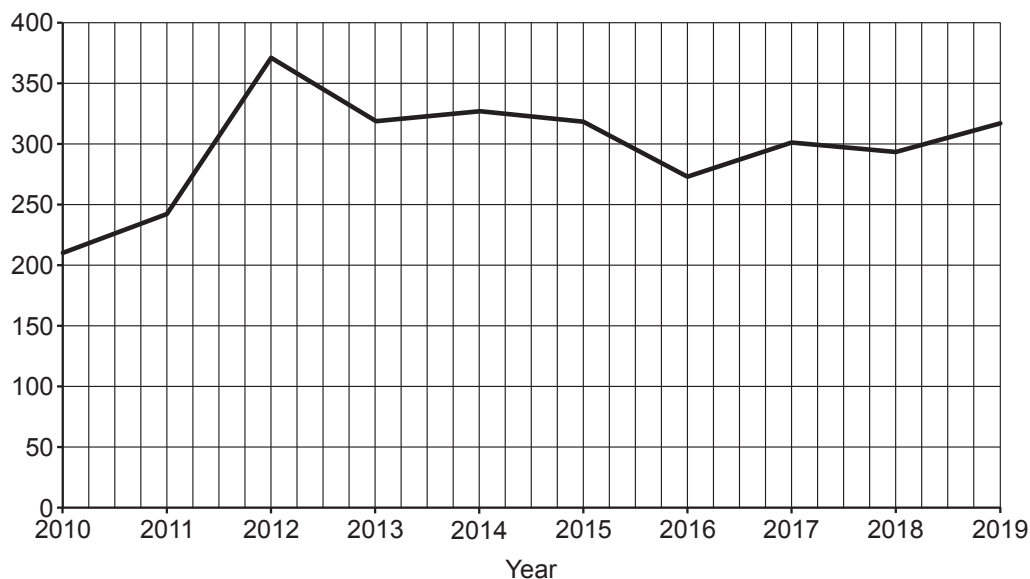
Read the stimulus material and answer **all** the parts of Question 1.

Wage differentials in the USA

Research shows the ratio of Chief Executive pay ('remuneration') to employee remuneration in the USA has increased significantly since 2010 (see **Fig. 1**). In 2019, Chief Executives at the largest 350 firms in the USA earned 320 times more than a typical employee.

Fig. 1

Chief Executive-to-employee remuneration ratio (USA), 2010–2019



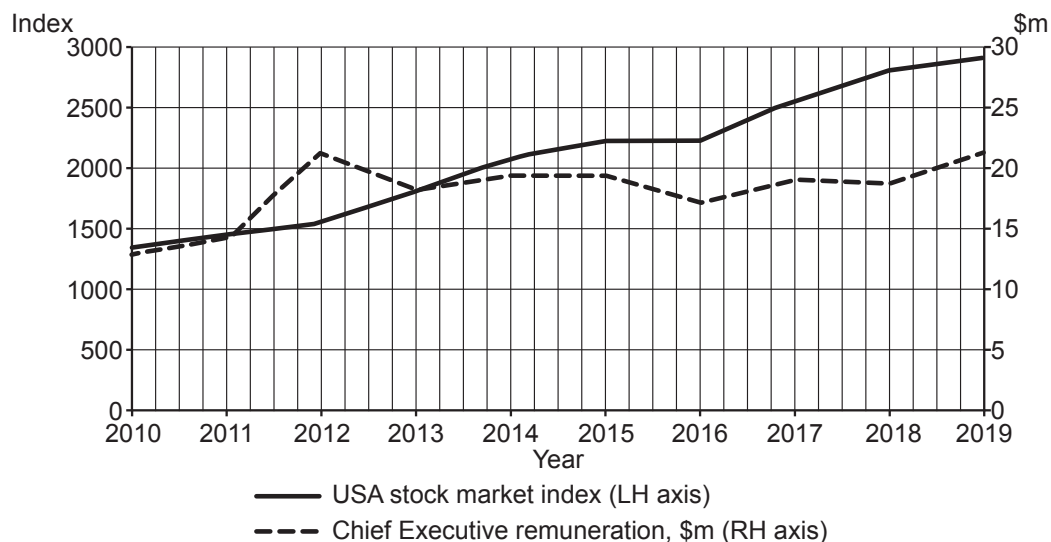
Source: Economic Policy Institute

Chief Executives earned an average of \$21 million in 2019, a 14% increase since 2018. In that year, the US stock market price index, which shows changes in the share prices of US companies also rose (see **Fig. 2**).

5

Fig. 2

Chief Executive remuneration and stock market performance (USA), 2010–2019



Source: Economic Policy Institute

© OCR 2023

3

This growth in Chief Executive remuneration has happened while wage growth for most Americans has remained relatively low. To distract attention from their remuneration, some Chief Executives have taken a voluntary cut in salary. However, this approach is criticised as much of their remuneration comes from share options (the right to buy shares at set prices) and bonuses. Other policies that may help reduce the remuneration gap between Chief Executive and employee have been suggested, including: 10

- reinstating a higher marginal income tax rate at the very top income levels;
- setting corporation tax rates higher for firms that have higher ratios of Chief Executive-to-employee remuneration; 15
- allowing greater use of 'say on pay' which allows a firm's shareholders to vote on Chief Executive remuneration.

Society is increasingly recognising who are the essential workers. They harvest our food, stock our grocery shelves and deliver goods all over the country. They look after our children and care for us when we are ill. They are also amongst the lowest-paid workers in the country. Why is this? 20
And, in contrast, why are relatively non-essential jobs, in such areas as entertainment and sport, so well paid?

The answer to these questions is not clear. The traditional economics answer would be to consider the concepts of demand and supply. Many of the essential occupations are easy to enter. For example, a cleaner might not require specialist knowledge or training. 25

A different answer could be 'scalability'. A cleaner, however skilled at their job, can only clean one building at a time. However, an entertainer can provide value to millions of people at the same time, thanks to television or the Internet. In many jobs, such as those in entertainment or sport, it is difficult to measure marginal physical productivity and so pay is set in a seemingly random way, often based on power. 30

This 'power differential' is a new area of research to explain wage differentials. This suggests that skill levels are not good predictors of wage levels, as there are big differences in wage between workers who do the same job.

In the USA, business leaders and politicians have worked together to weaken trade unions, oppose minimum wage legislation and remove labour market restrictions. Marshall Steinbaum, an economist at the University of Utah, suggests that the decline in workers' rights and bargaining power of trade unions alongside the greater power of employers is the main reasons for growing wage differentials. He says that "[The power] American bosses have to dictate take-it-or-leave-it terms to workers is the core reason our 'essential' workforce are underpaid." 35

Source: Adapted from *The Washington Post* (6/4/20) & *Pressenza* (19/8/20)

5

- (c) Explain, using an appropriate diagram, the size of economic rent relative to transfer earnings for essential workers such as cleaners. **Lines 23–25.**

.....

.....

.....

..... [4]

19

However, it is not universally accepted that Brazil has benefited from international trade. The price volatility on world markets of the commodities it exports can be very damaging to the economy, whilst the rate of deforestation in the Amazon rainforest is often cited as an example of how emerging economies suffer from the intensive use of their natural resources. 25

31 Using the data in **Fig. 1.1**, explain what happened to public sector wages after 2010.

.....

.....

.....

.....

.....

..... [2]

32 Explain, using information in **Extract 1**, **two** reasons why the wage elasticity of supply of labour for public sector workers is likely to be inelastic.

1

.....

.....

.....

.....

.....

2

.....

.....

.....

.....

..... [4]

8-MARK QUESTIONS

2 questions in this booklet

2

SECTION A

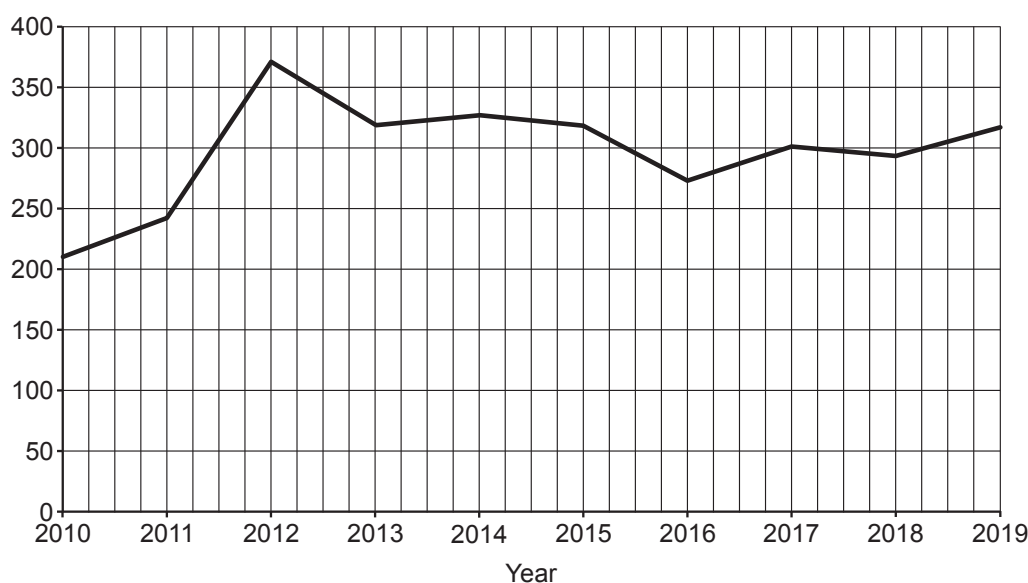
Read the stimulus material and answer **all** the parts of Question 1.

Wage differentials in the USA

Research shows the ratio of Chief Executive pay ('remuneration') to employee remuneration in the USA has increased significantly since 2010 (see **Fig. 1**). In 2019, Chief Executives at the largest 350 firms in the USA earned 320 times more than a typical employee.

Fig. 1

Chief Executive-to-employee remuneration ratio (USA), 2010–2019



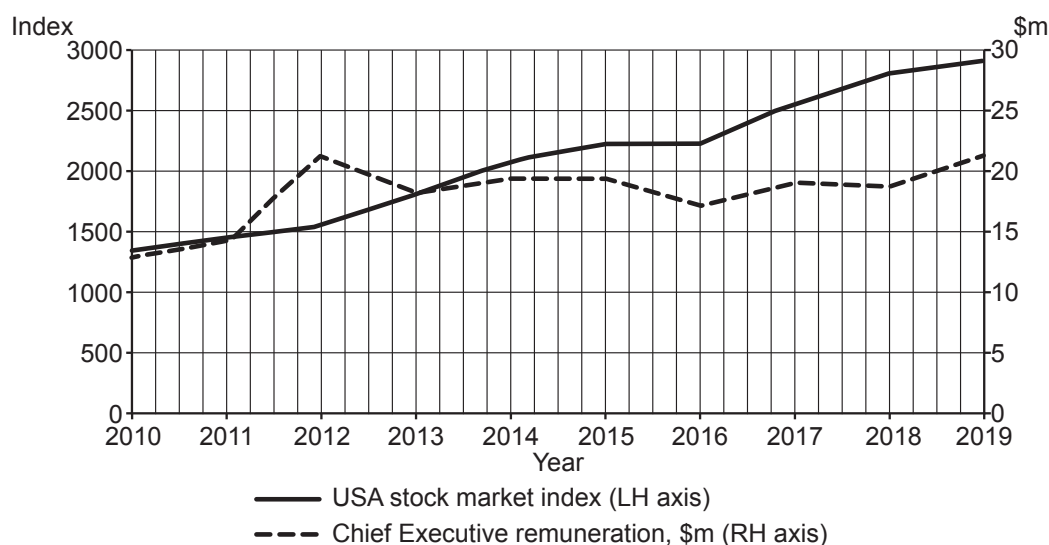
Source: Economic Policy Institute

Chief Executives earned an average of \$21 million in 2019, a 14% increase since 2018. In that year, the US stock market price index, which shows changes in the share prices of US companies also rose (see **Fig. 2**).

5

Fig. 2

Chief Executive remuneration and stock market performance (USA), 2010–2019



Source: Economic Policy Institute

© OCR 2023

3

This growth in Chief Executive remuneration has happened while wage growth for most Americans has remained relatively low. To distract attention from their remuneration, some Chief Executives have taken a voluntary cut in salary. However, this approach is criticised as much of their remuneration comes from share options (the right to buy shares at set prices) and bonuses. Other policies that may help reduce the remuneration gap between Chief Executive and employee have been suggested, including: 10

- reinstating a higher marginal income tax rate at the very top income levels;
- setting corporation tax rates higher for firms that have higher ratios of Chief Executive-to-employee remuneration; 15
- allowing greater use of 'say on pay' which allows a firm's shareholders to vote on Chief Executive remuneration.

Society is increasingly recognising who are the essential workers. They harvest our food, stock our grocery shelves and deliver goods all over the country. They look after our children and care for us when we are ill. They are also amongst the lowest-paid workers in the country. Why is this? 20
And, in contrast, why are relatively non-essential jobs, in such areas as entertainment and sport, so well paid?

The answer to these questions is not clear. The traditional economics answer would be to consider the concepts of demand and supply. Many of the essential occupations are easy to enter. For example, a cleaner might not require specialist knowledge or training. 25

A different answer could be 'scalability'. A cleaner, however skilled at their job, can only clean one building at a time. However, an entertainer can provide value to millions of people at the same time, thanks to television or the Internet. In many jobs, such as those in entertainment or sport, it is difficult to measure marginal physical productivity and so pay is set in a seemingly random way, often based on power. 30

This 'power differential' is a new area of research to explain wage differentials. This suggests that skill levels are not good predictors of wage levels, as there are big differences in wage between workers who do the same job.

In the USA, business leaders and politicians have worked together to weaken trade unions, oppose minimum wage legislation and remove labour market restrictions. Marshall Steinbaum, an economist at the University of Utah, suggests that the decline in workers' rights and bargaining power of trade unions alongside the greater power of employers is the main reasons for growing wage differentials. He says that "[The power] American bosses have to dictate take-it-or-leave-it terms to workers is the core reason our 'essential' workforce are underpaid." 35

Source: Adapted from *The Washington Post* (6/4/20) & *Pressenza* (19/8/20)

6

- (d) A number of policies have been suggested to affect Chief Executive remuneration including 'Allowing greater use of 'say on pay' which allows a firm's shareholders to vote on Chief Executive remuneration,' **Lines 16–17**.

Evaluate, using evidence from the stimulus material, the extent to which greater use of 'say on pay' alone may help reduce the remuneration gap between Chief Executive and employee in the US.

[8]

[illegible]

Handwriting practice area with horizontal dotted lines.

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 21st 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)
Employed	30 923	109	363
Unemployed	1 418	–63	–224
Economically Inactive (Aged 16–64)	8 812	–17	–13

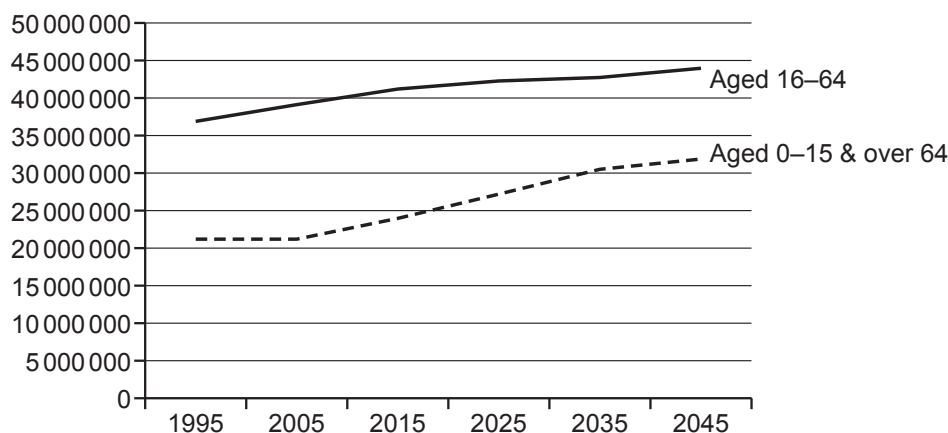
Source: ONS

- 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.

3

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.

4

- 50 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
- 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
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

5

Answer **all** the questions.

- 1 (a) 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]

6

- (d) A firm in a monopolistically competitive market decides to introduce more casual employment practices, such as zero-hour contracts.

Explain, using a diagram, the effect of this decision on the firm's equilibrium position in the short run.

[4]

- (e) Evaluate whether income inequality in the UK is a cause for concern. [8]

[illegible]

12-MARK QUESTIONS

1 question in this booklet

2

SECTION A

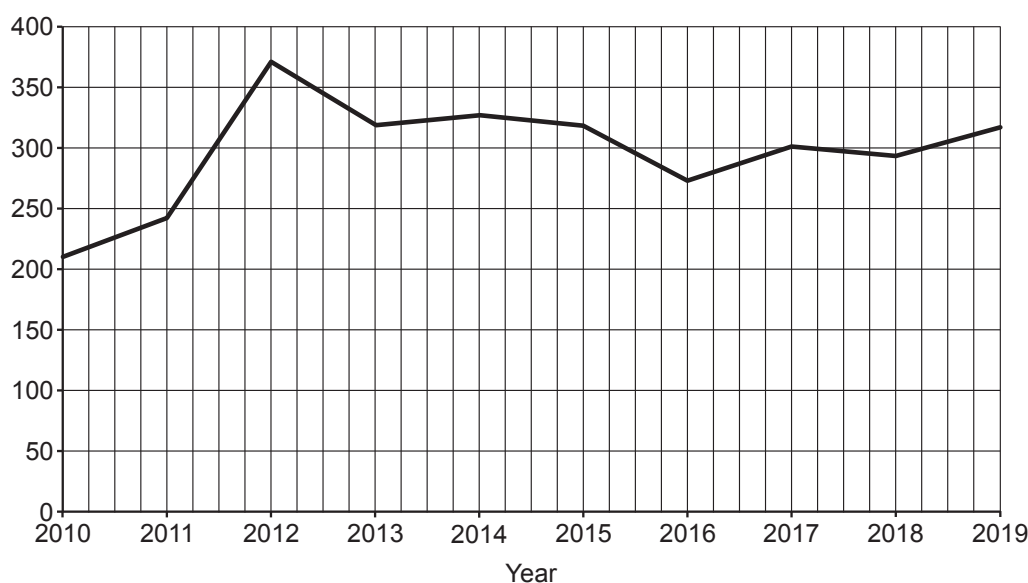
Read the stimulus material and answer **all** the parts of Question 1.

Wage differentials in the USA

Research shows the ratio of Chief Executive pay ('remuneration') to employee remuneration in the USA has increased significantly since 2010 (see **Fig. 1**). In 2019, Chief Executives at the largest 350 firms in the USA earned 320 times more than a typical employee.

Fig. 1

Chief Executive-to-employee remuneration ratio (USA), 2010–2019



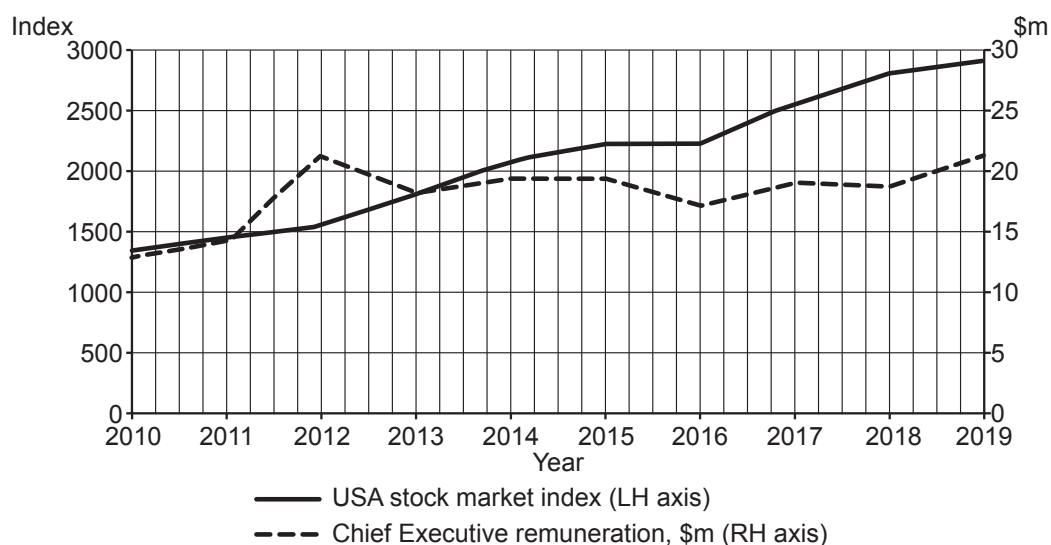
Source: Economic Policy Institute

Chief Executives earned an average of \$21 million in 2019, a 14% increase since 2018. In that year, the US stock market price index, which shows changes in the share prices of US companies also rose (see **Fig. 2**).

5

Fig. 2

Chief Executive remuneration and stock market performance (USA), 2010–2019



Source: Economic Policy Institute

© OCR 2023

3

This growth in Chief Executive remuneration has happened while wage growth for most Americans has remained relatively low. To distract attention from their remuneration, some Chief Executives have taken a voluntary cut in salary. However, this approach is criticised as much of their remuneration comes from share options (the right to buy shares at set prices) and bonuses. Other policies that may help reduce the remuneration gap between Chief Executive and employee have been suggested, including: 10

- reinstating a higher marginal income tax rate at the very top income levels;
- setting corporation tax rates higher for firms that have higher ratios of Chief Executive-to-employee remuneration; 15
- allowing greater use of 'say on pay' which allows a firm's shareholders to vote on Chief Executive remuneration.

Society is increasingly recognising who are the essential workers. They harvest our food, stock our grocery shelves and deliver goods all over the country. They look after our children and care for us when we are ill. They are also amongst the lowest-paid workers in the country. Why is this? 20
And, in contrast, why are relatively non-essential jobs, in such areas as entertainment and sport, so well paid?

The answer to these questions is not clear. The traditional economics answer would be to consider the concepts of demand and supply. Many of the essential occupations are easy to enter. For example, a cleaner might not require specialist knowledge or training. 25

A different answer could be 'scalability'. A cleaner, however skilled at their job, can only clean one building at a time. However, an entertainer can provide value to millions of people at the same time, thanks to television or the Internet. In many jobs, such as those in entertainment or sport, it is difficult to measure marginal physical productivity and so pay is set in a seemingly random way, often based on power. 30

This 'power differential' is a new area of research to explain wage differentials. This suggests that skill levels are not good predictors of wage levels, as there are big differences in wage between workers who do the same job.

In the USA, business leaders and politicians have worked together to weaken trade unions, oppose minimum wage legislation and remove labour market restrictions. Marshall Steinbaum, an economist at the University of Utah, suggests that the decline in workers' rights and bargaining power of trade unions alongside the greater power of employers is the main reasons for growing wage differentials. He says that "[The power] American bosses have to dictate take-it-or-leave-it terms to workers is the core reason our 'essential' workforce are underpaid." 35

Source: Adapted from *The Washington Post* (6/4/20) & *Pressenza* (19/8/20)

8

- (e)*** Evaluate, using evidence from the stimulus material, whether weaker trade unions is the main reason for increased wage differentials in the USA. **[12]**

[illegible]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

15-MARK QUESTIONS

3 questions in this booklet

22

- 33** Using Fig. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union.

[2]

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

[2]

- 35** 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]**

This image shows a full page of white paper with horizontal dashed lines, typical of primary school writing paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

21

- 31 Using the data in **Fig. 1.1**, describe the regional wage differentials that exist in the UK.
-
-
-
-
-
- [2]
- 32 Using the data in **Fig. 1.2**, calculate how much faster house prices rose in London compared to the North East between 2005 and 2020.
-
-
-
-
-
- [2]
- 33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether low labour market flexibility is the main cause of wage differentials between the North and South. [15]
-
-
-
-
-
-
-
-
-
-
-

Handwriting practice area consisting of 30 horizontal dotted lines.

Area for writing the answer to Question 33. The page contains horizontal dotted lines for writing.

22

- 31 Explain, using the information in **Extract 1**, why private car journeys may be overconsumed in the free market.

.....

.....

.....

.....

.....

..... [2]

- 32 Explain, using the information in **Fig. 1.2**, what has happened to the price of train tickets between 2004 and 2020.

.....

.....

.....

.....

.....

..... [2]

- 33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, the extent to which Trade Unions are responsible for labour market failure. [15]

.....

.....

.....

.....

© OCR 2023

Area for writing the answer to Question 33. The page contains horizontal dotted lines for writing.

Handwriting practice area with horizontal dotted lines.

25-MARK QUESTIONS

4 questions in this booklet

SECTION B

Answer **EITHER** Question 2 **OR** Question 3.

EITHER

- 2*** In 2018, the French bank, BNP Paribas, was found guilty of eliminating competition and fixing prices with rival firms between 2011 and 2013. It was the sixth major bank to face criminal charges as part of the same investigation in the USA and agreed to pay a fine of \$90m.

Evaluate, using an appropriate diagram(s), whether such collusion is the most significant disadvantage of an oligopolistic market. [25]

OR

- 3*** The education sector has the highest level of trade union membership in the UK, with over 50% of full-time teachers in a trade union. Approximately 90% of all teachers work in the state sector.

Evaluate, using an appropriate diagram(s), the impact of a bilateral monopoly on equilibrium in the labour market. **[25]**

Question

This image shows a full page of white paper with horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Section C

4* In May 2023, NHS waiting lists for routine hospital treatment rose to 7.42 m, the highest figure since records began in 2007.

OR

5* In recent years, labour mobility has not changed significantly in the UK. Governments seek to increase the mobility of labour using a range of policies.

Evaluate the impact an increase in labour mobility is likely to have on labour markets. **[25]**

Question No.

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

9

SECTION B

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

- 2* In recent years, most towns and cities have seen a rapid growth in the number of coffee shops and sandwich bars, the majority of which are small and locally-owned.

Evaluate, using an appropriate diagram(s), whether such small firms, operating in a monopolistically competitive market, can be economically efficient. [25]

OR

- 3* 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. [25]

Question no.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

SECTION B

Answer **EITHER** Question 2 **OR** Question 3.

EITHER

- 2*** 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]

OR

- 3*** The nature of the market experienced by internet-based firms, such as Amazon Marketplace, eBay and Alibaba, means that they may not have an objective of profit maximisation.

Evaluate, using an appropriate diagram(s), how a firm's objectives, other than profit maximisation, may affect its price and output decisions. [25]

Question

[illegible]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

MARK SCHEMES

official OCR mark schemes

15	C	A	This would cause a contraction along the labour demand curve.	AO3	
		B	This would increase costs of production and therefore decrease the demand for labour.		
		C	Correct: This increases MR, which increases MRP_L and therefore increases demand for labour.		
		D	Less workers will be demanded by firms when either wage costs rise or productivity falls (the determinants of unit labour costs).		

23	D	A	This will make domestic goods and services more price competitive as foreign consumers have to swap less of their currency for one unit of domestic currency.	AO1	
		B	This should reduce costs of production and increase price competitiveness.		
		C	This will reduce unit labour costs, increasing price competitiveness.		
		D	Correct: This will reduce labour market flexibility and is likely to increase wages, increasing costs of production and decreasing international price competitiveness.		

7	A	A	Correct: Firms must decide which goods and/or services to produce for consumers.	AO1	
		B	This is one of the roles of the government.		
		C	This is one of the roles of households.		
		D	This is one of the roles of the government.		

12	A	A Correct: Unit labour costs were £12/20 = £0.60. When productivity rises unit labour costs are £12/24 = £0.50. Unit labour costs fall by £0.10. B Incorrectly calculates unit labour costs by dividing output by cost. (20/£12 = £1.67 and 24/£12 = £2) C This is the new unit labour cost but is not the change in unit labour costs. D Productivity has increased so unit labour costs would not increase.	AO2	✓
----	---	--	-----	--------------

13	C	A As the supply of labour becomes more inelastic, the area above the supply curve (economic rent) will increase. B The demand for labour (MRP) would not shift because of a change in the elasticity of supply of labour. C Correct: As the supply of labour becomes more inelastic, the area under the supply curve (transfer earnings) will decrease. D The equilibrium wage rate will remain unchanged as the level of demand has not changed.	AO3	
----	---	---	-----	--

17	D	A	Corporation tax is a tax on profit so does not affect labour costs.	AO1	
		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.		

25	C	A	This would make labour supply inelastic which is likely to lead to higher wages.	AO1	
		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.		

6	D	A	Interest is the return paid to capital.	AO1	
		B	Profit is the return to enterprise.		
		C	Rent is the return to land.		
		D	Correct: Wages is the return to labour.		

17	D	A	This occurs when there is a monopoly buyer and monopoly seller of labour. There is no indication of the market structure or union presence given here.	AO2	
		B	This occurs when a country can produce a good or service at a lower opportunity cost than another country.		
		C	There is no reference to the restaurant's demand here, so derived demand is not relevant.		
		D	Correct: Workers are engaged in specialisation, with the firm directing each of them to concentrate on a particular part of the production process.		

31

Using the data in Fig 1.1, describe the regional wage differentials that exist in the UK.

Award 1 mark for each of 2 non-quantified descriptions of regional wage differentials;

- Average weekly wage in London is higher than in all other regions / UK average (1)
- Average weekly wage in Northern Ireland is lower than in all other regions / UK average (1)
- Average weekly wage in London is higher than in Northern Ireland (1)

Award 2 marks for a quantified description (absolute or percentage) of 1 regional wage differential:

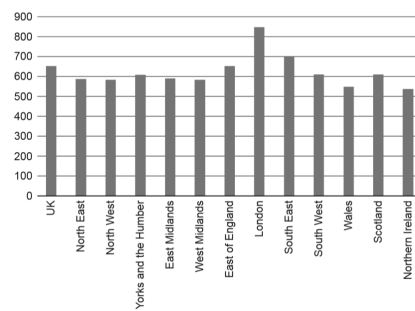
- Average weekly wage in London is around £300 higher (1) than in Northern Ireland (1)
- Average weekly wage in London is around 55% higher (1) than in Northern Ireland (1)
- Average weekly wage in London is around £200 higher (1) than the average for the UK (1)
- Average weekly wage in London is around 30% higher (1) than the average for the UK (1)

2

AO2 x 2

Annotate with ✓

Fig. 1.1
Average Weekly Wage (£s) by region in 2020



32		Using the data in Fig 1.2, calculate how much faster house prices rose in London compared to the North East between 2005 and 2020. <i>Award 1 mark for calculating house price growth in London:</i> • $(422 - 209) / 209 \times 100 = 101.9\%$ (1) ◦ Accept in range 101% - 102% <i>Award 1 mark for calculating house price growth in the North East:</i> • $(262 - 203) / 203 \times 100 = 29.1\%$ (1) ◦ Accept 29% <i>Award 2 marks for comparing house price growth in London to house price growth in the North East</i> • House prices in London increased 3.5 times faster than in the North East (2) • House prices increased by 72.8 percentage points more in London than the North East. (2)	2 AO2 x 2 Annotate with  Correct calculations of the % change in house prices in London and the North East omitting the % sign should be awarded 1 mark
----	--	--	---

1	a	(i)	Refer to Fig. 2. Describe the relationship between Chief Executive remuneration and stock market performance between 2010 and 2019. • There is a direct relationship / Chief Executive remuneration and stock market performance have both increased (1) • Stock market performance has increased at a faster rate than Chief Executive performance (1) • Chief Executive performance has increased by around 65% (1) • Stock market performance has increased by around 120% (1)	2	Fig. 2 Chief Executive remuneration and stock market performance (USA), 1978–2019 Source: EPI Annotate with Award 1 mark for each description of the data
---	---	-----	---	---	---

Question	Answer	Marks	Guidance
----------	--------	-------	----------

1	a	(ii)	Explain why this relationship may exist. Chief Executive remuneration may be linked to the firm's share price (1) so a strong stock market will lead to higher remuneration (1) A Chief Executive's remuneration may include share options (1) so it is likely to reflect the performance of the stock market (1)	2 (AO2 x 2)	Annotate with  1 mark for recognising that Chief Executive remuneration is likely to be linked in some way to the company's share price 1 mark for explaining this relationship
---	---	------	---	----------------	---

1	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

Question	Answer	Marks	Guidance
----------	--------	-------	----------

1	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

1	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 

1	c	Explain, using an appropriate diagram, the size of economic rent relative to transfer earnings for essential workers such as cleaners.	4 (AO1 x 2) (AO2 x 2) Annotate with Up to 2 marks for a diagram: - correct labelling of axes (wage rate, quantity of labour or quantity or employment), demand and supply of labour, equilibrium wage rate and equilibrium quantity of labour employed (1) - area of economic rent – shaded or labelled (e.g. W^1AB) (1) Up to 2 marks for explanation: - economic rent will be small relative to transfer earnings (1) – either stated or shown diagrammatically - wage elasticity of supply – supply will be wage elastic because easy to become a cleaner / low qualifications required / little knowledge or training required (1)
---	---	---	---

32		Explain, using information in Extract 1, two reasons why the wage elasticity of supply of labour for public sector workers is likely to be inelastic. - Length of training required in public sector jobs is high (1) meaning there will not be significant increases in labour supply when the wage rate increases because individuals are deterred from undertaking lengthy training (1) - Specific qualifications are required to enter some public sector jobs such as teachers needing a degree (1) meaning there will not be significant increases in labour supply when the wage rate increases because individuals who are not already supplying their labour to the profession may not have the necessary	4 AO1 x 2 AO2 x 2	Award 1 mark for identification of a reason and 1 mark for the associated explanation. For explanation marks to be awarded a clear understanding of the theory of wage elasticity of supply must be evident.
----	--	---	--	--

1	d	A number of policies have been suggested to affect Chief Executive remuneration including 'Allowing greater use of 'say on pay' which allows a firm's shareholders to vote on Chief Executive remuneration'. Evaluate, using evidence from the stimulus material, the extent to which greater use of 'say on pay' alone may help reduce the remuneration gap between Chief Executives and employees in the US. Level 2 (5–8 marks) Good knowledge and understanding of the policy of 'say on pay' and the remuneration gap Good – Strong analysis of how the greater use of 'say on pay' may help reduce the remuneration gap between Chief Executives and employees in the US. • 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 greater use of 'say on pay' alone may help reduce the remuneration gap between Chief Executive and employee in the US considering both sides and underpinned by appropriate theoretical analysis. • Good evaluation will weigh up both sides but without reaching a supported judgement. • Strong evaluation should include a supported judgement.	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)	Annotation <table><tr><td>Knowledge and Understanding</td><td>KU</td><td>Grouped at end of response</td></tr><tr><td rowspan="2">Application</td><td>APP ✓</td><td rowspan="2">End of response</td></tr><tr><td>APP ✗</td></tr><tr><td>Analysis</td><td>AN</td><td>Grouped beside the body of the analysis</td></tr><tr><td>Evaluation</td><td>EVAL</td><td>Grouped beside the body of the evaluation</td></tr></table> Knowledge and understanding • Chief Executive remuneration refers to the rewards to CEOs and includes pay, share options and bonuses • the remuneration gap relates to the difference between rewards to CEOs and average employees Context • the ratio of Chief remuneration to employee remuneration in the USA has increased • Chief Executives of the largest firms in the USA earn 320 times more than a typical employee • Chief Executive remuneration is related to stock market performance • wage growth for average employees in the US	Knowledge and Understanding	KU	Grouped at end of response	Application	APP ✓	End of response	APP ✗	Analysis	AN	Grouped beside the body of the analysis	Evaluation	EVAL	Grouped beside the body of the evaluation
Knowledge and Understanding	KU	Grouped at end of response															
Application	APP ✓	End of response															
	APP ✗																
Analysis	AN	Grouped beside the body of the analysis															
Evaluation	EVAL	Grouped beside the body of the evaluation															

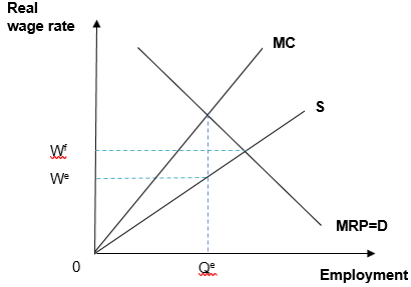
1	e	Evaluate whether income inequality in the UK is a cause for concern.	
		Level 2 (5–8 marks) Good knowledge and understanding of the concept of income inequality and of the significance of income inequality in the UK. Good – Strong analysis of the impacts of income inequality in the UK. • Good analysis 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 the significance of income inequality in the UK considering both sides and underpinned by appropriate theoretical analysis. • Good evaluation will weigh up both sides but without reaching a supported judgement. • Strong evaluation should include a supported judgement.	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3) Income inequality can be seen as an example of labour market failure and occurs when there is a wide gap between rich and poor households. Increasing inequality in the UK is a cause for concern because: • it depresses demand since those on lower incomes tend to spend a greater proportion of their income than those on high incomes; • those on low incomes have less access to basic goods and services; • in the face of stagnating wages, households rely increasingly on debt to maintain their lifestyles, as seen by the evidence of 8.3m people with unmanageable debt mentioned in the stimulus material and household debt standing at 150% of income; • the increasing number of people said to be 'just about managing' has led to greater demand on charities, such as food banks, and the welfare state; • it leads to social problems with certain groups in society, such as racial minorities, women and single parents more likely to be affected. This may affect social cohesion; • it impacts on outcomes for physical and mental health, education, life expectancy, geographical mobility of labour – which reduces MRP of labour; • it may reduce enterprise in the economy as those on low incomes are unable to access finance to start new businesses

1	e	*	Evaluate, using evidence from the stimulus material, whether weaker trade unions is the main reason for increased wage differentials in the USA. Level 3 (9–12 marks) Good knowledge and understanding of reasons for wage differentials, supported by the evidence in the stimulus material and / or the candidate's own knowledge and understanding. Good – Strong analysis of how weaker trade unions may increase wage differentials • 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 other reasons for increased wage differentials, 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>	12 (AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)	Annotation <table><tr><td>Knowledge and Understanding</td><td>KU</td><td>Grouped at end of response</td></tr><tr><td rowspan="2">Application</td><td>APP ✓</td><td rowspan="2">End of response</td></tr><tr><td>APP ✗</td></tr><tr><td>Analysis</td><td>AN</td><td>Grouped beside the body of the analysis</td></tr><tr><td>Evaluation</td><td>EVAL</td><td>Grouped beside the body of the evaluation</td></tr></table> Knowledge and understanding • trade unions are organisations which represent the interests of workers who belong to the union • they do this by negotiating with employers on pay and conditions / negotiating on large-scale redundancy / representing their members in disciplinary and grievance meetings • impact of trade unions on wage rates and employment • causes of wages differentials in terms of differences in the demand and / or supply of labour in different labour markets	Knowledge and Understanding	KU	Grouped at end of response	Application	APP ✓	End of response	APP ✗	Analysis	AN	Grouped beside the body of the analysis	Evaluation	EVAL	Grouped beside the body of the evaluation
Knowledge and Understanding	KU	Grouped at end of response																
Application	APP ✓	End of response																
	APP ✗																	
Analysis	AN	Grouped beside the body of the analysis																
Evaluation	EVAL	Grouped beside the body of the evaluation																

35	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>	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 – immigration increases labour market flexibility.
----	---	----	--

33*	Evaluate, using an appropriate diagram(s) and the information in Extract 1, whether low labour market flexibility is the main cause of wage differentials between the North and South. Level 3 (11–15 marks) Good knowledge and understanding of labour market flexibility and wage differentials. Good – strong analysis of whether low labour market flexibility is the main cause of wage differentials between the North and the South. 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 low labour market flexibility is the main cause of wage differentials between the North and the South, 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>	15 AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6	Guidance: • <i>The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.</i> • <i>To access Good analysis or Good evaluation the answer must have one relevant diagram</i> • <i>Good analysis requires:</i> ◦ <i>a relevant and explained diagram OR</i> ◦ <i>developed chains of reasoning</i> • <i>Strong analysis requires, in addition:</i> ◦ <i>use of the Extract 1</i> • <i>Good evaluation requires:</i> ◦ <i>a relevant and explained diagram OR</i> ◦ <i>developed chains of reasoning</i> • <i>Strong evaluation requires, in addition:</i> ◦ <i>an explained judgement</i> Knowledge & Understanding of wage differentials and labour market flexibility: • wage rates determined by demand and supply of labour • regional wages differentials are caused by differences in the demand and supply of labour in different regions • labour market flexibility relates to the willingness and ability of labour to respond to changes in the demand and supply of labour • at the microeconomic level, demand for labour is a derived demand and related to MRP_L • at the macroeconomic level, demand for labour adjusts to changes in the economic cycle, structure of the economy, globalisation ... • factors affecting labour market flexibility include: labour mobility; migration; wage flexibility; pay bargaining; skills
-----	---	---	--

33	*	Evaluate, using an appropriate diagram(s) and the information in Extract 1, the extent to which Trade Unions are responsible for labour market failure. Level 3 (11–15 marks) Good knowledge, understanding and application of the impact of trade unions on the labour market. Good – strong analysis of the extent to which trade unions are 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. Good - strong evaluation of the extent to which trade unions are responsible for labour market failure, 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>	15 (AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6) • 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. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. Knowledge, Understanding and Application: Knowledge, Understanding and Application marks should be awarded for material that is given in the case study: • 36,000 days were lost due to strike action of London Underground workers between 2010 and 2020. • Tube drivers earn more than their marginal revenue product of labour. • Tube drivers earn more than double the average wage (£55,000). • The wages of tube drivers reflect demanding nature of job (public safety responsibilities and working unsociable hours). • Members would otherwise be exploited and underpaid by TfL. • Unions have power in rail industry because of size of membership and critical nature of work. • Union membership has declined in UK from two thirds in 1970s to less than 25% today. • Globalisation has led to influence of unions declining. • Unions only have power today in a few public
----	---	--	---

3 *	The education sector has the highest level of trade union membership in the UK, with over 50% of full-time teachers in a trade union. Approximately 90% of all teachers work in the state sector. Evaluate, using an appropriate diagram(s), the impact of a bilateral monopoly on equilibrium in the labour market. Level 5 (21–25 marks) Good – Strong knowledge and understanding of a bilateral monopoly in the labour market. Strong analysis of how a bilateral monopoly may affect equilibrium in the labor 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 how a bilateral monopoly may affect the 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>	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. Knowledge and understanding - bilateral monopoly exists when a monopoly seller of labour (typically represented by a trade union where union density is high) faces a firm that is a monopoly buyer of labour. Context(s) 90% of teachers employed in the state sector 50% of full-time teachers belong to a trade union Analysis  - in a monopsonistic labour market, the firm will employ labour up to the point where $MC=MRP$ - this will lead to Q^e workers employed at a wage W^e which is below the free market wage of W^f
------------	--	---

5* Evaluate the impact an increase in labour mobility is likely to have on labour markets.

Level / mark	Descriptor
Level 5 (21-25 marks)	Strong knowledge and understanding of economic idea(s), principle(s), and model(s). Strong application of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 4 (16-20 marks)	Good knowledge and understanding of economic idea(s), principle(s), and model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Good evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 3 (11-15 marks)	Good knowledge and understanding of economic idea(s), principle(s), and model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.

3	*	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>	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
---	---	---	--

2	*	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 determination/differentials. It will have consistently well-developed links through a coherent chain of reasoning which addresses the	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. 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.
---	---	---	---	---