

Economics

Advanced GCE

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

Mark Scheme for June 2013

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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

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

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Annotations

Annotation	Meaning
	Unclear
	Benefit of the doubt
	Cross
	Effective evaluation
	Irrelevant
	Level one
	Level two
	Level three
	Level four
	Not answered question
	Noted but no credit given
	Too vague
	Tick
	Development of point

Subject-specific Marking Instructions

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

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

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

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

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

Level 1: Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.

Question			Answer	Marks	Guidance
1	(a)	(i)	<p>What is meant by inequality in the distribution of income? Up to two marks For both marks focus must be on income as opposed to wealth. Note income as opposed to wages as income might come from benefits, interest, etc.</p> <p>The concept of inequality must be considered in terms of groups in the economy receiving less/more than a proportionate amount of total income. Candidates might use deciles, quartiles, etc to express this.</p> <p>Inequality in the distribution of income is when there are differences between the income levels (1) of different groups within the economy eg the highest 10% of income earners might receive a significantly higher percentage of income than the lowest 10% of income earners. (1)</p>	2	<p>Simple statements such as</p> <ul style="list-style-type: none"> • some people earning more than others • rich and poor <p>should not be rewarded</p> <p>Different groups must be clearly identified.</p> <p>Accept answers which focus on an occupation, region, gender and households rather than the whole economy.</p>
		(ii)	<p>Using Fig. 1, describe the changes in income inequality in the UK between 1980 and 2010. Up to two marks Inequality increased overall – one mark.</p> <p>Inequality increased/equality decreased significantly from 1980 to 1990 – one mark.</p> <p>Inequality/equality remained fairly constant 1990 to 2010 – one mark. Inequality increased at a slower pace – one mark</p> <p>Accept slight rise in inequality/fall in equality compared to 1980–90 – one mark.</p>	2	<p>Candidates must refer to equality/inequality and not simply describe what has happened to the numerical coefficient. The paragraph in the case study explains the numerical coefficient and candidates should refer to changes in equality and/or inequality.</p>

Question	Answer	Marks	Guidance
(b)	<p>Comment on the extent to which low pay is the main cause of income inequality. Up to five marks</p> <p>Candidates should analyse how the existence of low pay can lead to income inequality by making comparisons with others on average or above average income.(1) a significant number of the population rely on income from employment for their income and therefore it is likely to be a significant cause of income inequality.(1)</p> <p>Those on low income will tend to be low skilled and with fewer training opportunities and as a result will stay in low paid jobs. For example school leavers might be attracted into NMW jobs rather than stay in education.(1) As a result they do not build up higher level transferable skills and become stuck in low income employment. (1)</p> <p>On the other hand candidates could point out that some low paid people might have relatively high levels of income through transfers or inequalities in the distribution of wealth.</p> <p>Another approach is to consider other causes of income inequality such as households/individuals dependent on state transfers alone eg pensioners, unemployed, students, single parents. Reference could be made to the ability of skilled and qualified workers to push their wages above average earnings. The unequal distribution of wealth is also relevant here.</p>	5	<p>Up to two marks for an analysis of one side of the question.</p> <p>Up to two marks for an analysis of the other side of the question.</p> <p>Plus – one further mark for a judgement/conclusion – if both sides have been analysed.</p>

Question	Answer	Marks	Guidance
(c)	<p>State and explain two possible methods of reducing regional income inequality.</p> <p>Possible methods of reducing regional income inequality might include</p> <ul style="list-style-type: none"> • various types of regional policy involving capital or labour mobility eg subsidies to less prosperous regions. • Differential regional minimum wage • Different tax systems in different regions. <p>Methods can be both government intervention and private sector initiatives – eg low wages/rents in an area acting as an incentive for labour/capital to relocate.</p> <p>Accept any, well explained, possible method.</p>	4	<p>Explanation must be on REGIONAL income inequality. General answers on income inequality should receive no marks.</p> <p>Increased mobility can earn four marks only if both labour and capital are considered.</p> <p>One mark for each correct identification up to a maximum of two identifications plus a further one mark for each of two explanations.</p>

Question	Answer	Marks	Guidance
(d)	<p>State and explain two reasons why jobs such as hairdressing, cleaning and hospitality have a high percentage of minimum wage workers.</p> <p>Reasons might be based on demand and supply side factors.</p> <p>For example: Training and education qualifications required are relatively low (1) and, therefore, the supply of labour is very elastic. Thus increases in the demand for the products/services provided by these workers will not result in wage increases as supply will respond quickly.(1)</p> <p>NMW jobs tend to be low skilled and associated with a low marginal revenue product (1). As a result wages will be low to reflect the low MRP as, in theory, the firm cannot afford to pay workers above their MRP.(1)</p> <p>Regional and national unemployment might be high (1). This creates a large pool of surplus labour putting downward pressure on wages, especially when linked with a lack of aggregate demand.(1)</p> <p>Jobs in these occupations might also be part-time or temporary, dominated by females, lack union representation. All these categories are associated with NMW employment.</p>	4	<p>One mark for each correct identification up to a maximum of two identifications plus a further one mark for each of two explanations.</p> <p>Credit should not be given for a repeated reason. Eg there must be a clear distinction between elasticity of supply analysis and an excess supply analysis for four marks overall.</p>

Question	Answer	Marks	Guidance
(e)	<p>Discuss the effectiveness of progressive taxation in reducing income inequality in the UK.</p> <p>A progressive tax system, such as income tax in the UK, is one where as income increases the percentage of income paid in tax increases. (1) or the marginal tax rate is greater than the average tax rate (1)</p> <p>As a result progressive taxation has a more than proportionate impact on those on higher incomes.(1) Those on low incomes may even pay no tax on income at all as progressive tax systems usually have a tax free personal allowance.(1) As a result income differentials are reduced.</p> <p>Governments can also then use this tax revenue to transfer income to lower income groups or provide free or subsidised services.(1)</p> <p>Governments could also use tax revenue to create employment opportunity eg infrastructure spending, rather than a simple direct transfer of income. (1)</p> <p>On the other hand progressive income tax will only impact upon those receiving income and will not have a significant impact upon inequality caused by lack of income or no income. It also depends on the government using the tax revenue to transfer income to lower income groups in the form of transfer payments, eg JSA (Job Seekers Allowance).</p> <p>Higher income groups might respond to higher taxation by tax avoidance/evasion.</p> <p>Might lead to 'brain drain'</p> <p>Lower incomes – unemployment/poverty trap. MTR over 100%.</p> <p>Another approach on this side is to consider alternatives to progressive taxation such as increasing the NMW (National Minimum Wage), measures to change social mobility such as greater access to education and training, subsidies for education and training, positive discrimination and maximum wages.</p>	8	<p>Up to eight marks</p> <p>Up to three marks for an analysis of one side of the question.</p> <p>Up to three marks for an analysis of the other side of the question.</p> <p>Plus up to a further two marks for a judgement/conclusion – if both sides have been analysed.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
2	(a)	<p>Analyse, using a diagram, the behaviour of a monopoly.</p> <p>Candidates can be expected to begin with an outline of what defines a monopolist in terms of being a single seller, or over 25% in real world, complete barriers to entry, firm being a price maker earning abnormal profits.</p> <p>Using the assumption of profit maximisation a diagram should then be introduced to show the price and output decisions.</p> <p>Analysis should involve the argument that the price will be relatively high due to the strong degree of market power. On the output side the profit maximising level of output should be analysed in terms of lack of both productive and allocative efficiency. MC not equal to AC and MC not equal to AR (price).</p>	15	<p>13–15 Predominantly correct diagram with good analysis of two or more features.</p> <p>11–12 Predominantly correct diagram with good analysis of one feature or basic analysis of two.</p> <p>9–10 Predominantly correct diagram with basic analysis of one feature.</p> <p>Analysis must involve explicit reference to diagram.</p> <p>Predominantly correct diagram but no analysis – L2.</p>	<p>Level 3 (9–15 marks) Analysis which focuses on the price and output decisions of a monopolist.</p> <p>Level 3 – accept analysis based on alternative decisions of monopolist other than profit maximisation, eg public sector monopoly, marginal cost pricing etc.</p> <p>Level 2 (5–8 marks) Application of knowledge. In this case an answer which makes broad assertions about the price and output decisions of a monopolist. A correct diagram without explanation = 8. A predominantly correct diagram without explanation = 7. Application but no diagram = 6</p> <p>Level 1 (1–4 marks) Knowledge and understanding of monopoly.</p>

Question			Answer	Marks	Guidance	
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			Analysis points on behaviour might include; <ul style="list-style-type: none"> • Price and output • Abnormal/supernormal profits • Efficiencies • Price discrimination • Maintaining barriers to entry 			

Question		Answer	Marks	Guidance	
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	(b)	<p>Discuss, using examples from a leisure industry of your choice, the extent to which competition creates efficiency.</p> <p>Efficiency can take many forms and expect to see an analysis of productive, allocative, Pareto, dynamic and the concept of X-inefficiency.</p> <p>It can be argued that competition creates productive efficiency through the analysis of the requirements of least cost production ($AC = MC$).</p> <p>Similarly competition will result in prices being driven down to equal marginal cost. Thus creating an allocatively efficient outcome. ($Price (AR) = MC$)</p> <p>Expect to see perfect market being used to demonstrate and analyse this point – although not on the specification this approach is totally valid. Candidates might also validly introduce the idea of a perfectly contestable market or the long run monopolistic in comparison to a monopoly.</p> <p>X-inefficiency, associated with monopoly control of a market, might be included as way of demonstrating how the break down of monopoly power might create efficiency gains.</p> <p>Competition, however, may not always create efficiency and candidates might point to;</p> <p>The existence of economies of scale/natural monopoly argument Monopolist might reinvest profits into R and D and produce innovation and invention. Dynamic efficiency may result from this</p>	20	Analysis must be explicit to efficiency.	<p>Level 4(a) (16–20 marks) Discussion that includes a judgement of the extent to which competition creates efficiency</p> <p>18–20 = two sided, balanced discussion with good judgement.</p> <p>16–17 = two sided balanced discussion with weak judgement.</p> <p>Level 4(b) (11–15 marks) For a balanced discussion of the extent to which competition creates efficiency. At this stage alternative views might be introduced and analysed. A discussion lacking balance should receive no more than 12.</p> <p>13–15 = balanced two sided discussion with relevant economic analysis of both sides.</p> <p>11–12 = basic discussion which is predominantly one sided.</p> <p>Two sided analysis, not in context of leisure industry – max 13.</p>

Question			Answer	Marks	Guidance	
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			<p>Monopolist might not have objective of profit maximisation – public sector monopoly argument.</p> <p>Candidates should use examples from their chosen leisure industry to illustrate these points.</p>			<p>Level 3 (5–10 marks) Analysis of how competition creates or does not create efficiency.</p> <p>One side, not in context of a leisure industry – Max 7 marks.</p> <p>Level 2 (3–4 marks) Application of knowledge and understanding of how competition creates efficiency.</p> <p>Level 1 (1–2 marks) Knowledge of competition and or efficiency</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
3	(a)	<p>Analyse how the existence of discrimination may lead to labour market failure. Discrimination can take many forms age, sex, race, etc and can be both positive and negative.</p> <p>Theories explaining discrimination include those such as Becker's Theory and the concept of statistical discrimination. Becker argues that employers may be prepared to experience higher costs rather than employ members of certain groups. Statistical discrimination arises because of imperfect information. When deciding whom to employ, how much to pay and who to promote and train employers make decisions based on generalisations about groups of workers.</p> <p>Negative discrimination results in an inefficient allocation of resources and inequitable wage differentials for a range of reasons,</p> <p>Those discriminated against suffer low pay and lack of employment opportunity Producers have a smaller pool of labour to choose from leading to productive inefficiency Consumers experience higher prices and less choice – allocative inefficiency Governments pay out more in benefits and anti-discrimination legislation Whole economy operates below potential output.</p> <p>Positive discrimination can also be expected to produce similar types of market failure and inefficiencies.</p>	15		<p>Level 3 (9–15 marks) Analysis which focuses on why discrimination causes labour market failure.</p> <p>13–15 = good analysis of two or more.</p> <p>11–12 = good analysis of one feature or basic analysis of two reasons.</p> <p>9–10 = basic analysis of one reason why discrimination might lead to market failure.</p> <p>Level 2 (5–8 marks) Application of knowledge. In this case an answer which makes broad assertions about the effect of discrimination on labour market failure.</p> <p>Level 1 (1–4 marks) Knowledge and understanding of discrimination or labour market failure</p>

Question		Answer	Marks	Guidance	
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	(b)	<p>Discuss the extent to which government intervention is the best method of improving labour market flexibility in the UK.</p> <p>A flexible labour market is dynamic in that it adjusts quickly and smoothly to changes in demand and supply conditions. Various types include numerical, temporal, locational, functional and wage flexibility.</p> <p>The key aspects are labour mobility both occupational and geographical, flexible working patterns such as part-time, variable hours, shift work, temporary contracts and wage flexibility where wages act as a signal to allocate labour resources where they are most productive.</p> <p>Government intervention to achieve labour market flexibility can include legislation on a range of areas such as increased labour market information, training and education. Cuts in marginal tax rates and unemployment benefits act as policies which impact the incentive to work. Also National Minimum Wage legislation might increase the incentive to work. Regional policy could also be argued to have an impact.</p> <p>Firms will find it easier to adjust to changes in demand if the supply of labour becomes more responsive to changes in wage rates.</p> <p>(Answers need not be limited to UK legislation. Answers based on EU legislation are totally acceptable.)</p> <p>Those going down the EU route might include the Social Chapter, rights for part-time workers, working time directive and directives on agency workers.</p>	20		<p>Level 4(a) (16–20 marks) Discussion that includes a judgement of the extent to which government intervention affects labour market flexibility in UK.</p> <p>18–20 = two sided, balanced discussion with good judgement.</p> <p>16–17 = two sided balanced discussion with weak judgement.</p> <p>Level 4(b) (11–15 marks) For a balanced discussion of the extent to which government intervention affects labour market flexibility in UK. At this stage alternative views might be introduced and analysed. A discussion lacking balance should receive no more than 12.</p> <p>13–15 = balanced two sided discussion with relevant economic analysis of both sides.</p> <p>11–12 = basic discussion which is predominantly one sided.</p>

Question			Answer	Marks	Guidance	
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			<p>On the one hand government legislation might be the best method to create a flexible labour market and candidates might point out the positive impact of;</p> <p>Increased incentive to work. Increased incentive to work harder. Improved occupational mobility. Improved geographical mobility. Changes to the elasticity of supply of labour through education and training.</p> <p>On the other hand candidates could go on to both criticise the power of government intervention and suggest alternative methods of improving labour market flexibility.</p> <p>Problems with government intervention might include,</p> <p>Workers might not respond as suggested to tax and benefit cuts Increased desire to work also requires demand for labour to exist Cost to government in terms of opportunity cost might be considered too high and an inefficient use of resources. Some legislation might impose costs on the employer and reduce the number of people employed, eg maternity/paternity leave and employment protection. Government intervention might simply, therefore, create government failure and not generate flexibility.</p> <p>Candidates could argue that the most flexible market would be one without any government intervention at all, where market forces govern the supply and demand for labour. This creates an opportunity to discuss the rationale behind government intervention.</p>			<p>Level 3 (5–10 marks) Analysis of how government intervention affects labour market flexibility in UK in either a positive or negative manner or non-EU methods of increasing labour market flexibility in UK.</p> <p>Level 2 (3–4 marks) Application of knowledge and understanding of how government intervention affects labour market flexibility.</p> <p>Level 1 (1–2 marks) Knowledge and understanding of government intervention or labour market flexibility.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
4	(a)	<p>Analyse, using examples, the factors which determine the elasticity of supply of labour.</p> <p>The responsiveness of the supply of labour to a change in the wage rate is the elasticity of supply of labour and the factors which influence it are:</p> <p>the qualifications and skills required – supply of skilled workers is more inelastic than that of unskilled</p> <p>the length of training – the longer the training period the more inelastic</p> <p>the immobility of labour both geographical and occupational – the greater the level of mobility the more elastic the supply.</p> <p>the time period – inelastic in the short term and more elastic in the long term.</p> <p>Candidates are expected to state and explain the factors and use them to explain why, when wages change, the reaction may be either responsive or non responsive.</p>	15	<p>Be careful not to credit any material based on factors affecting the supply of labour.</p> <p>No ref to change in wages. L2 max.</p>	<p>Level 3 (9–15 marks) Analysis which focuses on the factors which influence elasticity of supply of labour.</p> <p>13–15 = good analysis of two or more factors. 11–12 = good analysis of one factor or basic analysis of two factors. 9–10 = basic analysis of one factor.</p> <p>Analysis which does not include examples = Max 9.</p> <p>Level 2 (5–8 marks) Application of knowledge. In this case an answer which makes assertions about the factors affecting elasticity of supply of labour without going on to provide detailed analysis. If appropriate examples are given then award at least 7 marks.</p> <p>Level 1 (1–4 marks) Knowledge and understanding of what elasticity of supply is.</p>

Question		Answer	Marks	Guidance	
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	(b)	<p>Discuss the relevance of marginal revenue productivity theory in wage determination within contemporary, real-world labour markets.</p> <p>The marginal revenue product of labour is the change in a firm's total revenue from employing one more worker. It is found by multiplying the MPP by the price of the product or the marginal revenue – the extra revenue from selling one more product.</p> <p>The MRP curve, in effect, becomes the demand curve for labour.</p> <p>Changes in MRP can therefore result from either a change in the price of the product or a change in the productivity of labour. An increase in either will shift the MRP curve to the right.</p> <p>Assuming that the supply of labour remains constant then this change will result in wages rising in that occupation.</p> <p>Similarly a shift to the left of the MRP curve causes wages to fall.</p> <p>On the other hand, candidates may go on to discuss the difficulty of measuring the MPP of an individual worker or workers in particular industries, such as the tertiary sector, eg doctors, teachers.</p> <p>Candidates can be expected to select and analyse occupations where MRP theory is thought to be a very important factor in determining wages and/or employment.</p>		<p>Candidates not using examples of real world labour markets are limited to a maximum of 13 marks.</p>	<p>Level 4(a) (16–20 marks) Discussion that includes a judgement of the relevance of MRP theory in wage determination within real world markets</p> <p>18–20 = two sided, balanced discussion with good judgement. 16–17 = two sided balanced discussion with weak judgement.</p> <p>Level 4(b) (11–15 marks) For a balanced discussion of the extent to which MRP theory and supply side factors affect wages within real world markets. A discussion lacking balance should receive no more than 12.</p> <p>13–15 = two sided discussion with relevant economic analysis of both sides.</p> <p>11–12 = basic discussion which is predominantly one sided.</p>

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			<p>Another approach is to analyse alternative wage determination theories.</p> <p>Wage determination is a product of both demand and supply factors.</p> <p>Candidates may consider extra demand factors such as the derived demand, the state of the economy.</p> <p>The supply side must also play a role in wage determination. The factors affecting the supply of labour to an occupation should be considered and an analysis of the different levels of elasticity of supply in different labour markets would be very important in explaining wage differentials.</p> <p>The impact of Trade Unions on supply and government intervention such as National Minimum Wage can also be considered.</p> <p>Candidates may analyse the market power of both employer and employees in real world markets and its effect on wages and employment.</p>			<p>Level 3 (5–10 marks) Analysis of how MRP theory affects wages within real world markets or how factors other than demand are important in determining wages within real world markets.</p> <p>One side analysis with no reference to world labour markets = max 7</p> <p>Level 2 (3–4 marks) Application of knowledge and understanding of how MRP theory affects wages within real world markets.</p> <p>Level 1 (1–2 marks) Knowledge and understanding of the MRP theory, wages and how they are determined.</p>

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