

Advanced GCE
ECONOMICS

F583

Unit F583: Economics of Work and Leisure

Specimen Paper

Morning/Afternoon

Time: 2 hours

Additional Materials: Answer Booklet (...pages)



INSTRUCTIONS TO CANDIDATES

Answer Section A and **one** question from Section B.

INFORMATION FOR CANDIDATES

The number of marks for each question is given in brackets [] at the end of each question or part of question.

The total number of marks for this paper is **60**.

ADVICE TO CANDIDATES

- Read each question carefully and make sure you know what you have to do before starting your answer.
- You will be assessed on the quality of written communication in part (b) of section B.

This document consists of **6** printed pages.

Section A

Answer **all** questions.

Difficult times in the package holiday market

The tragic events of 11 September 2001, the subsequent war against terror and the unstable global situation have had a profound effect on the package holiday market. Table 1 below shows how the demand for package holidays abroad by UK residents has changed since 2000.

Table 1: Number of visits, total expenditure and percentage of all holidays by UK residents on package holidays abroad, 2000-2004

	No of visits on package holidays ('000's)	Total expenditure at 1999 prices (£bn)	% of all holidays abroad
2000	20,055	8,220	55
2001	20,631	8,438	53
2002	20,638	8,081	52
2003	19,519	7,844	47
2004	19,500	7,803	46

Note: The data on the number of visits and total expenditure are not strictly comparable due to the slight difference in the definitions of inclusive tours and package holidays.

Source: International Passenger Survey, Office of National Statistics, 2005

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Travel agents have found it increasingly difficult to compete with direct sell, internet bookings and customers who even in the summer peak have been looking to buy a heavily discounted package at the last possible minute. Table 2 shows the air inclusive packages sold by the four largest tour operators from 2000-2004.

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Table 2: Passengers carried by Big Four UK package holiday operators in the summer period, April – September 2000-2004 ('000)

	TUI UK Ltd	Thomas Cook	My Travel Ltd	First Choice	% total market	Total passengers carried by all operators
2000	4037	2816	3366	1894	44.0	27,500
2001	3917	2827	3773	1930	42.6	29,200
2002	4492	2572	3566	2768	48.2	27,800
2003	4498	2520	3127	2822	47.2	27,500
2004	4826	2463	2599	2773	45.2	28,000

Source: Travel & Tourism Market, Market Review, Key Note Ltd, 2005.

Section A

Answer this question

- 1 (a) (i) Use the information in Table 1 to describe how the number of visits by UK residents on inclusive tour holidays abroad has changed between 2000 and 2004. [2]
- (ii) Explain **two** likely reasons for the fall in the percentage of all holidays taken abroad. [4]
- (b) Has the average price of holidays abroad increased or decreased in 2004 compared with 2000? Justify your answer. [3]
- (c) Table 2 shows the sales of air inclusive holidays by the Big Four operators from 2000 to 2004.
- (i) State **three** characteristics of an oligopolistic market. [3]
- (ii) Comment on the changing market concentration ratio from 2000 to 2004. [5]
- (d) The information in lines 5 to 7 indicates that the market for package holidays abroad is increasingly price competitive. Comment upon the extent to which this is typical of how firms compete in oligopolistic markets. [8]

Section A Total: [25 Marks]

[Turn Over

Section B

Answer **one** question.

- 2** In 2005, unit labour costs in the UK were about six times greater than those in the Czech Republic.
- (a) Explain why unit labour costs differ between countries. [15]
- (b) Discuss the extent to which variations in unit labour costs will impact on the movement of firms and labour in the EU. [20]
- 3** Bus drivers in London are paid around £10 per hour. In Bradford, they are paid £6 per hour.
- (a) Use economic analysis to explain why this is so. [15]
- (b) Discuss the policies that are available to the Government to combat labour market failure in this type of situation. [20]
- 4** (a) Explain why there is a 'Pensions Crisis'. [15]
- (b) Discuss the extent to which this Pensions Crisis might impact on the UK labour market and the economy as a whole. [20]

Section B Total: [35 Marks]

Paper Total: [60 Marks]

SPECIMEN

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The maximum mark for this paper is 60.

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Section A		
Question Number	Answer	Max Mark
1(a)(i)	<p>Use the information in Table 1 to describe how the number of visits by UK residents on inclusive tours abroad has changed between 2000 and 2004.</p> <p>The total number of visits has fallen slightly from 2000 to 2004 [1]. Numbers peaked in 2002 [1] with a major decline from 2002 to 2003 [1].</p>	[2]
1(a)(ii)	<p>Explain <u>two</u> likely reasons for the fall in the percentage of holidays taken abroad.</p> <p>Various possibilities include:</p> <ul style="list-style-type: none"> • price of holidays abroad relative to those at home; • adverse change in the £, €, \$ exchange rate making holidays abroad relatively more expensive; • a fall in real incomes; • a consequence of the external factors that are referred to in lines 1 to 3. • a change in tastes: e.g. towards more independent travel. <p>1 mark for identification, 1 mark for explanation in each case.</p>	[4]
1(b)	<p>Has the average price of a holiday abroad increased or decreased in 2004 compared with 2000? Justify your answer.</p> <p>The average price has fallen. [1]. Dividing total expenditure by number of visits. [1]. Down to around £400 from c £420. [1].</p>	[3]
1(c) 1(c)(i)	<p>Table 2 shows the sales of air inclusive holidays by the Big Four operators from 2000 to 2004.</p> <p>State <u>three</u> characteristics of an oligopolistic market.</p> <p>Various possibilities include:</p> <ul style="list-style-type: none"> • market dominated by a few firms; • high barriers to entry; • firms are price makers; • interdependence; • non-price competition/branding; • potential to collude. <p>Any three, one mark each.</p>	[3]

Section A		
Question Number	Answer	Max Mark
1(c)(ii)	<p>Comment on the changing market concentration ratio from 1999 to 2004.</p> <p>The concentration ratio is fluctuating [1] yet there was a big rise between 2001 and 2002. [1]</p> <p>Comments could include:</p> <ul style="list-style-type: none"> • this is unusual – normally concentration increases over time in most oligopolistic markets; • new small firms could be entering the market; • Big Four appear to be losing out in a declining market. <p>Up to 3 marks for any relevant comment.</p>	[5]
1(d)	<p>The information in lines 5 to 7 indicates that the market for package holidays abroad is increasingly price competitive. Comment upon the extent to which this is typical of how firms compete in oligopolistic markets.</p> <p>Max 3 marks for recognising that price rigidity/ non-price competition is usual in oligopolistic markets.</p> <p>Max 5 marks for appropriate comment which could include:</p> <ul style="list-style-type: none"> • this appears atypical and is probably due to this being a very competitive market; • firms remain interdependent – a price war could be very damaging; • My Travel especially is experiencing a loss of market share and has to cut prices to sell off unsold holidays. 	[8]
Section A Total		[25]

Section B		
Question Number	Answer	Max Mark
2	<p>In 2005, unit labour costs in the UK were about six times greater than those in the Czech Republic.</p>	
2(a)	<p>Explain why unit labour costs differ between countries.</p> <p>Unit labour costs are usually expressed in a common currency and refer to the real cost of employing a typical unit of labour. This allows international comparisons to be made. They differ between countries due to various factors including the variations in the cost of living, employment charges, skill factors, male/female wage differentials and compositions.</p> <p>Level 3 [9-15]</p> <p>For an explanation of why unit labour costs differ between countries. For 13+ marks, there must be a detailed explanation of at least one of the factors referred to above.</p> <p>Level 2 [5-8]</p> <p>For application of knowledge and understanding of why unit labour costs differ between countries. For 7+ marks the application must refer to a specific example.</p> <p>Level 1 [1-4]</p> <p>For knowledge of unit labour costs. For 3+ marks a clear knowledge of the real cost of employing a typical unit of labour is required.</p> <p><i>Synoptic knowledge:</i> <i>AS Unit 2:</i> <i>Government economic policy objectives and indicators of national economic performance.</i></p>	
2(b)	<p>Discuss the extent to which variations in unit labour costs will impact on the movement of firms and labour in the EU.</p> <p>In theory, variations in unit labour costs will result in firms moving production to locations where unit labour costs are low (e.g. CEE countries) and labour migrating to areas where unit labour costs are high (e.g. where there are labour shortages). This would be seen as the natural working of the market mechanism. In practice this may not happen. Labour may not migrate for language, family and cultural reasons; firms may not relocate to a new more peripheral location as there may be no benefit from external economies of scale. Impact on the current account of Balance of Payments. Relevant examples will enhance the quality of the answer.</p>	[15]

Section B		
Question Number	Answer	Max Mark
2(b) cont'd	<p>Level 4 (a) [16-20] For a discussion that includes a judgement of the extent to which variations in unit labour costs affect the movement of firms and labour in the EU. This judgement should make clear how important unit labour costs are relative to all other factors that affect the location decision of firms.</p> <p>Level 4 (b) [11-15] For a balanced discussion of the implications of variations in unit labour costs on the movement of firms and labour in the EU. A discussion lacking in balance should receive no more than 13 marks.</p> <p>Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 [5-10] For an analysis of how the variations in unit labour costs affect the movement of firms and labour in the EU.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>For 8+ marks, there should be an in-depth analysis of one of the factors that affected the movement of firms.</p> <p>Level 2 [3-4] For the application of knowledge and understanding of how the variations in unit labour costs affect the movement of firms and labour in the EU.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which may be noticeable and intrusive.</p> <p>Level 1 [1-2] For a knowledge and understanding of how variations in unit labour costs affect the movement of firms and labour between regions.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.</p>	[20]

Section B		
Question Number	Answer	Max Mark
3	<p>Bus drivers in London are paid around £10 per hour. In Bradford, they are paid £6 per hour.</p>	
3(a)	<p>Use economic analysis to explain why this is so.</p> <p>The simple answer to this question is that it is all about supply and demand. Bus drivers are paid more in London because there is a bigger demand relative to supply; in Bradford, there is no shortage of supply. A more sophisticated response could be in terms of MRP – bus drivers in London have a higher marginal value to their employer than in Bradford.</p> <p>Level 3 [9-15]</p> <p>For an explanation as to why bus drivers are paid more in London than Bradford. For 13+ marks there must be a detailed explanation of the differences in the labour market for bus drivers in London compared to Bradford.</p> <p>Level 2 [5-8]</p> <p>For an application of knowledge and understanding as to why bus drivers are paid more in London than Bradford. For 7+ marks MRP and elasticity of supply should be applied to both London and Bradford.</p> <p>Level 1 [1-4]</p> <p>For a knowledge and understanding of why wage rates differ. For 3+ marks demand and supply influences must be recognised.</p> <p><i>Synoptic knowledge:</i> <i>AS Unit 1:</i> <i>Competitive markets and how they work.</i></p>	
3(b)	<p>Discuss the policies that are available to the Government to combat labour market failure, in this type of situation.</p> <p>The Government could use supply side policies to provide more training courses for bus drivers in London or subsidies for firms willing to employ more staff. Assistance might also be provided to help unemployed bus drivers move to areas where there is a labour shortage. On the other hand, the variation in hourly wages is more a case of market forces in operation and government should not necessarily intervene. A persistent shortage should lead to an increase in the wage rate.</p> <p>Discussion of other policies e.g. private sector policies to combat labour market failure is also relevant. The impact of migrant labour.</p> <p>Level 4 (a) [16-20]</p> <p>For a discussion that includes a judgement of the effectiveness of policies that are available to the Government to combat labour market failure. This judgement should make clear the likely effectiveness of Government policies compared to all other factors that determine where people work and live.</p>	[15]

Section B		
Question Number	Answer	Max Mark
3(b) cont'd	<p>Level 4 (b) [11-15]</p> <p>For a balanced discussion of policies that might be used to combat labour market failure. A discussion lacking in balance should receive no more than 13 marks.</p> <p>Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 [5-10]</p> <p>For an analysis of policies that might be used by the Government to combat labour market failure. For 8+ marks there should be an in-depth analysis of one of the policies that might be used by the Government to combat labour market failure.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point if the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 [3-4]</p> <p>For the application of knowledge and understanding of policies available to Government to combat labour market failure.</p> <p>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.</p> <p>Level 1 [1-2]</p> <p>For a knowledge and understanding of one or more policies available to the Government to combat market failure.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>	[20]

Section B		
Question Number	Answer	Max Mark
4(a)	<p>Explain why there is a 'Pensions Crisis'.</p> <p>The Pensions Crisis has come about for various reasons such as increasing life expectancy, early retirement schemes draining pension funds, poor performance of certain funds, employers and employees not paying sufficient contributions and so on. The crisis is that many funds, particular private sector ones, will not be in a position to pay out what is expected in the near future.</p> <p>Level 3 [9-15]</p> <p>For an explanation of why there is a 'Pensions Crisis'. For 13+ marks there must be a detailed explanation of at least one of the reasons referred to above.</p> <p>Level 2 [5-8]</p> <p>For application of knowledge and understanding of why there is a 'Pensions Crisis'. For 7+ marks there must be a clear application of the problems of an ageing population / changing composition of the population, and their effects on pension funds.</p> <p>Level 1 [1-4]</p> <p>For a knowledge and understanding of what is meant by the 'Pensions Crisis'. For 3+ marks there must be some understanding of the problem of an ageing population for pension funds.</p> <p><i>Synoptic knowledge:</i> <i>AS Unit 1:</i> <i>Market failure and government intervention.</i></p>	[15]
4(b)	<p>Discuss the extent to which this Pensions Crisis might impact on the UK labour market and the economy as a whole.</p> <p>The most likely impact on the labour market is that the normal retirement age for male and female workers will increase. There will also be a tightening up on early retirements and similar concessions that are currently given by pension funds. Consequently, the typical age of workers will increase – some may be rather disillusioned. The impact on the economy is that government intervention may be needed in the short term to bale out pension funds. There are also implications for the funding of the State Pension and other public services. Longer term, the economy may become more productive due to often well qualified people remaining in the labour market. Unqualified labour may find it more difficult to obtain work and impact on the rates of direct taxation for those in work.</p>	

Section B		
Question Number	Answer	Max Mark
4(b) cont'd	<p>Level 4 (a) [16-20] For a discussion that includes a judgement of the extent to which the Pensions Crisis will impact on the UK labour market and the economy as a whole. This judgement should make clear the extent to which the Government could or indeed should intervene in the Pensions Crisis.</p> <p>Level 4 (b) [11-15] For a balanced discussion of the likely impact on the UK labour market and the economy. A discussion that lacks balance on the likely impact should receive no more than 13 marks.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 [5-10] For an analysis of the likely impact on the UK labour market and the economy. For 8+ marks there should be an in-depth analysis of the impact on either the UK labour market or the economy.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 [3-4] For the application of knowledge and understanding of the likely impact of the Pensions Crisis.</p> <p>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.</p> <p>Level 1 [1-2] For knowledge and understanding of the likely impact of the Pensions Crisis.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>	[20]
Section B Total		[35]
Paper Total		[60]

Assessment Objectives Grid (includes QWC)

Question	AO1	AO2	AO3	AO4	Total
1(a)(i)	0	2	0	0	2
1(a)(ii)	2	0	2	0	4
1(b)	0	3	0	0	3
1(c)(i)	3	0	0	0	3
1(c)(ii)	1	1	0	3	5
1(d)	0	0	3	5	8
2(a)/3(a)/4(a)	4	4	7	0	15
2(b)/3(b)/4(b)	2	2	6	10	20
Totals	12	12	18	18	60

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