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Exam Questions

6. The Labour Market

Factors Influencing the Demand for Labour / Factors Influencing the Supply of Labour / Determining Wage Rates: Competitive Labour Markets / Determining Wage Rates: Imperfectly Competitive Labour Markets / The Influence of Trade Unions on Wages & Employment / The National Minimum Wage (NMW) / Discrimination in the Labour Market

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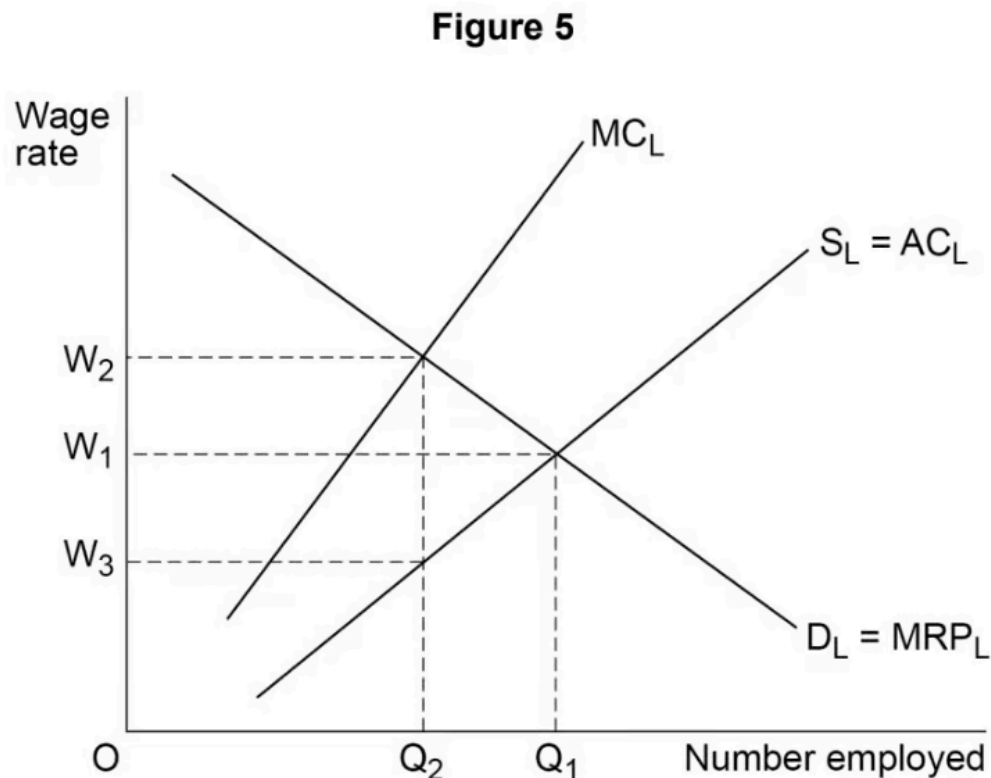or visit savemyexams.com
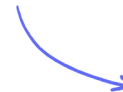
Total Marks   **/86**

1 **Figure 5** shows the market demand for labour ($D_L = MRP_L$), the market supply of labour ($S_L = AC_L$), and the marginal cost of labour (MC_L), in a particular industry. The employer in this industry is a monopsonist.

Figure 5

From **Figure 5**, it can be concluded that, in the absence of a trade union or a minimum wage, the firm will employ

A. OQ_1 workers at a wage of OW_1.

B. OQ_2 workers at a wage of OW_1.

C. OQ_2 workers at a wage of OW_2.

D. OQ_2 workers at a wage of OW_3.

(1 mark)

2 Refer Insert

After considering **Extract D**, and the original evidence in **Extracts A**, **B** and **C**, would you recommend that the government implement a further substantial increase in the National Living Wage? Justify your recommendation.

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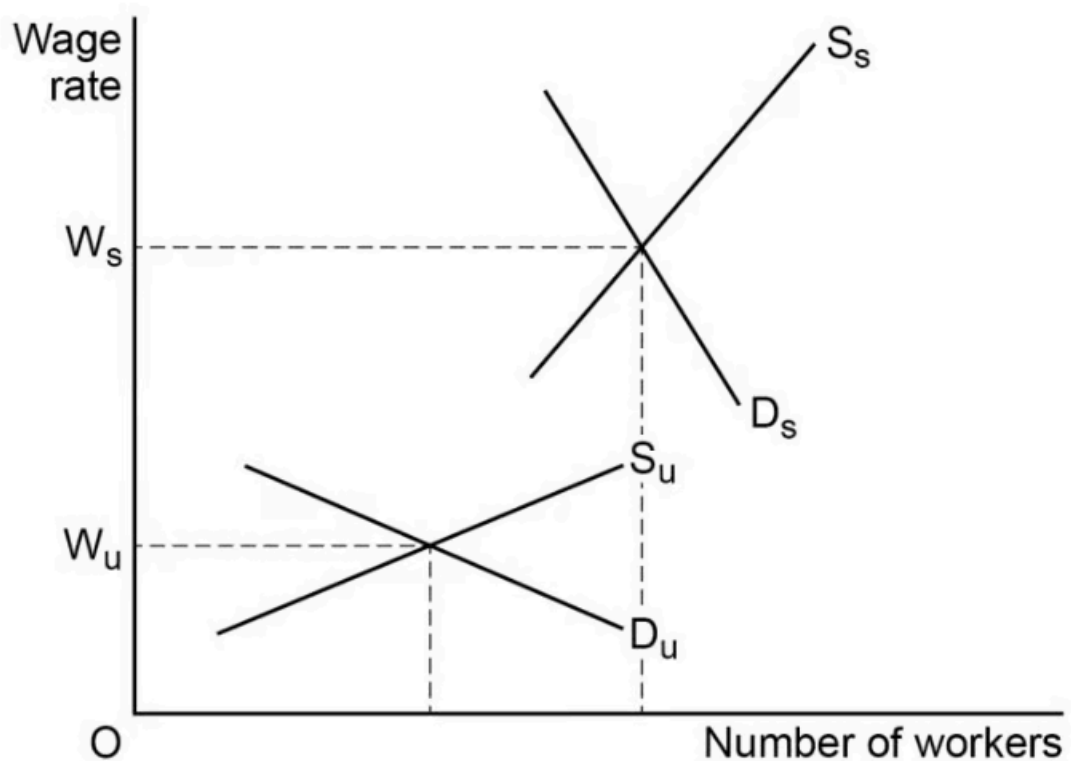
(25 marks)

3 All other things being equal, which one of the following is most likely to cause the marginal revenue product of labour curve in the shoe manufacturing industry to shift to the right?

    A. A decrease in money wage rates in the shoe industry.

    B. A decrease in the number of workers employed in the shoe industry.

    C. An increase in the market demand for shoes.

    D. An increase in the number of firms competing in the shoe industry.

(1 mark)

4 The diagram below shows the demand and supply curves for skilled labour (D_s and S_s) and unskilled labour (D_u and S_u) and the wage differential (W_s–W_u) between the two

types of labour.

All other things being equal, which one of the following is most likely to cause a decrease in the wage differential?

  A. A fall in the demand for unskilled workers

  B. A fall in the size of the labour force

  C. An increase in the demand for skilled workers

  D. An increase in the proportion of the labour force with a degree

(1 mark)

5 In a labour market dominated by a monopsonist, wages and employment are usually lower than in a competitive labour market. This is because a monopsonist.

   A. employs workers up to the point where the marginal revenue product of labour is equal to the wage rate.

   B. is a monopoly supplier of labour.

   C. equates the marginal revenue product of labour with its marginal cost not the wage rate.

   D. restricts output to raise the price of the product sold.

(1 mark)

**6** The diagram below shows the market for bricklayers.
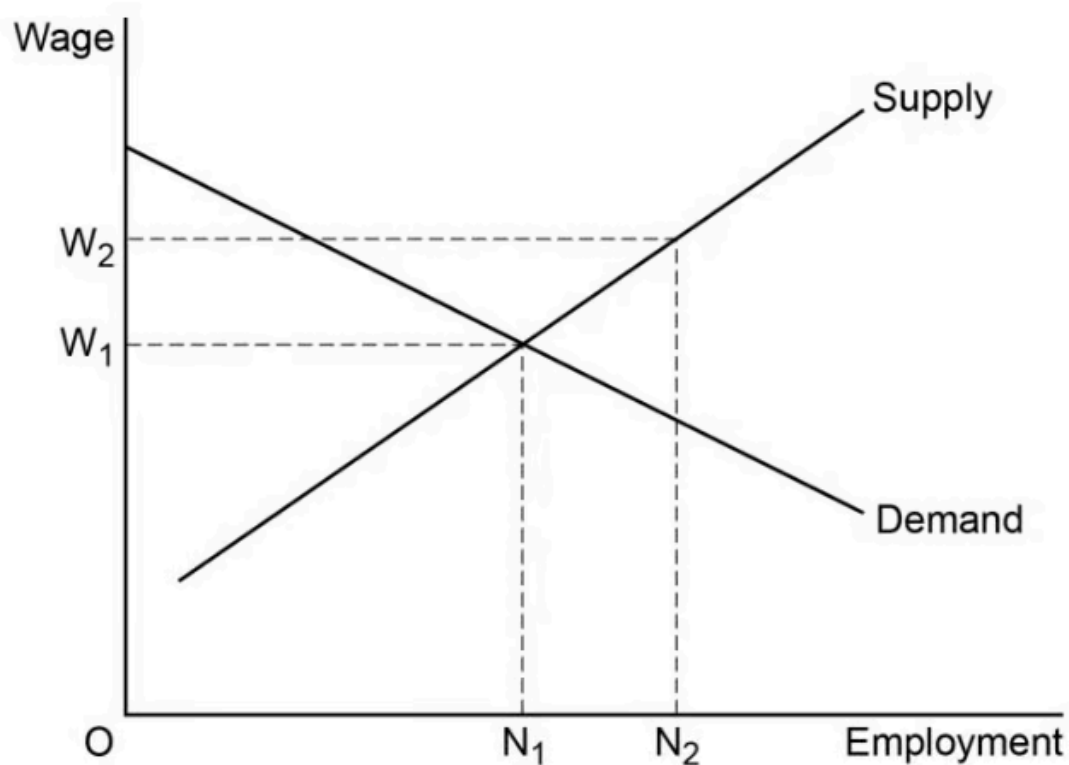
The original equilibrium wage is W_1 and the number of bricklayers employed is N_1. Which one of the following events is most likely to increase the wage paid to bricklayers to W_2 and increase employment to N_2?

A. A cut in bank rate leading to a fall in mortgage interest rates

B. A fall in the number of young people training as apprentice bricklayers

C. An improvement in working conditions in the construction industry

D. An increase in the wages paid to electricians in the construction industry

(1 mark)

7 The diagram below represents the market for unskilled agricultural labourers where the demand for agricultural labourers is D_L and the supply is S_L. The trade union representing agricultural labourers has negotiated a minimum wage of OW_{min} for its members.
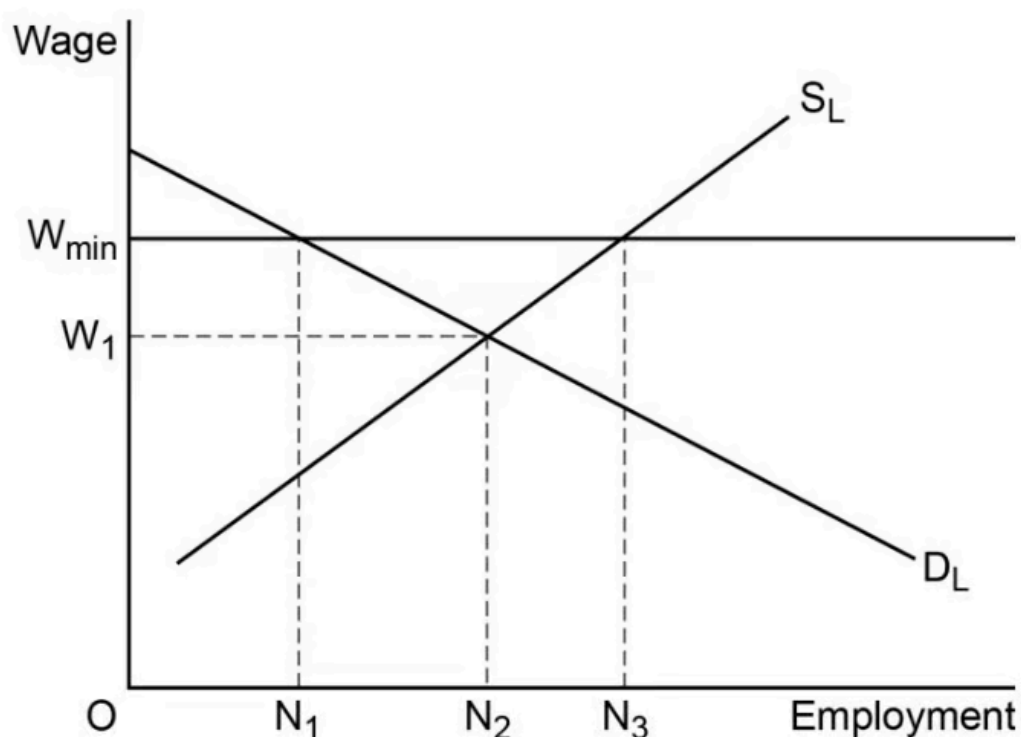
The effect of implementing a minimum wage of OW_{min} is that

A. cyclical unemployment increases by $(ON_3 - ON_1)$.

B. frictional unemployment increases by $(ON_2 - ON_1)$.

C. real wage unemployment increases by $(ON_3 - ON_1)$.

D. the natural rate of unemployment increases by $(ON_2 - ON_1)$.

8

Figure 3: Pay for care workers, compared with pay for workers in the whole economy, £s per hour, 2017

Percentile	Care worker	Whole economy
10th	7.20	7.31
25th	7.20	8.69
50th	7.50	12.23
75th	8.02	18.57
90th	8.73	27.06

Source: National Audit Office, 2018

Using the data in **Extract D (Figure 3)**, calculate how much the median care worker earns for every pound earned by the median worker in the whole economy. Give your answer **to the nearest penny**

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(2 marks)

Figure 4: UK population by age (000s)

Age group	Year 2016	Year 2041 (forecast)
0–18	14 652	15 132
19–64	39 182	39 980
65–84	10 250	14 545
85–94	1 436	2 887
95+	128	360
Total	**65 648**	**72 905**

Source: ONS, 2018

Note: The figures may not sum to the total due to rounding

Explain how the data in **Extract D (Figure 4)** show that there is likely to be substantial upward pressure on the wages of care workers by 2041

(4 marks)

10 **Extract E** states: 'Until the 1990s, almost all workers in the care sector were employed by the government, which acted as a monopsonist by keeping wages low.' With the help of a diagram, **explain** how a monopsonistic public sector can lead to low pay for social care work

Extract E: Problems in the social care market Social care in England involves the provision of personal care to adults with needs arising from illness, disability, old age or poverty. Social care is provided to people in their own homes or in care homes. Many people in need of care are on low incomes and cannot afford to pay for it themselves. High quality care provides private benefits and also external benefits, including lower burdens on the NHS and on working relatives. Until the 1990s, almost all workers in the care sector were employed by the government, which acted as a monopsonist by keeping wages low. Over the last 30 years the sector has been largely privatised, with 75% of England's 15 000 care homes now run for profit. Privatisation was intended to create more choice, improve efficiency and ensure high quality, whilst enabling a quicker response to changing demand.

Since privatisation, the sector has seen further downward pressure on wages. Social care providers, bidding competitively for contracts from local authorities starved of cash, have minimised labour costs. Privatisation does not seem to have improved the quality of care either. Some elderly clients are cared for, in their own homes, by unqualified staff in 15-minute slots, with budgets too small to provide nutritious meals or basic care. Despite the actions of the industry regulator, the Care Quality Commission, there have been many scandals involving care homes in recent years. As a result, some have argued that there are moral and economic arguments for social care to be brought back into public ownership

11 'Each time the Government imposes a minimum price or wage, the result is almost always excess supply. What matters is the extent to which this is a problem.'

Discuss the view that a national minimum wage is beneficial for an economy

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(25 marks)

12

Figure 3: Differences between male and female wages and employment in selected countries

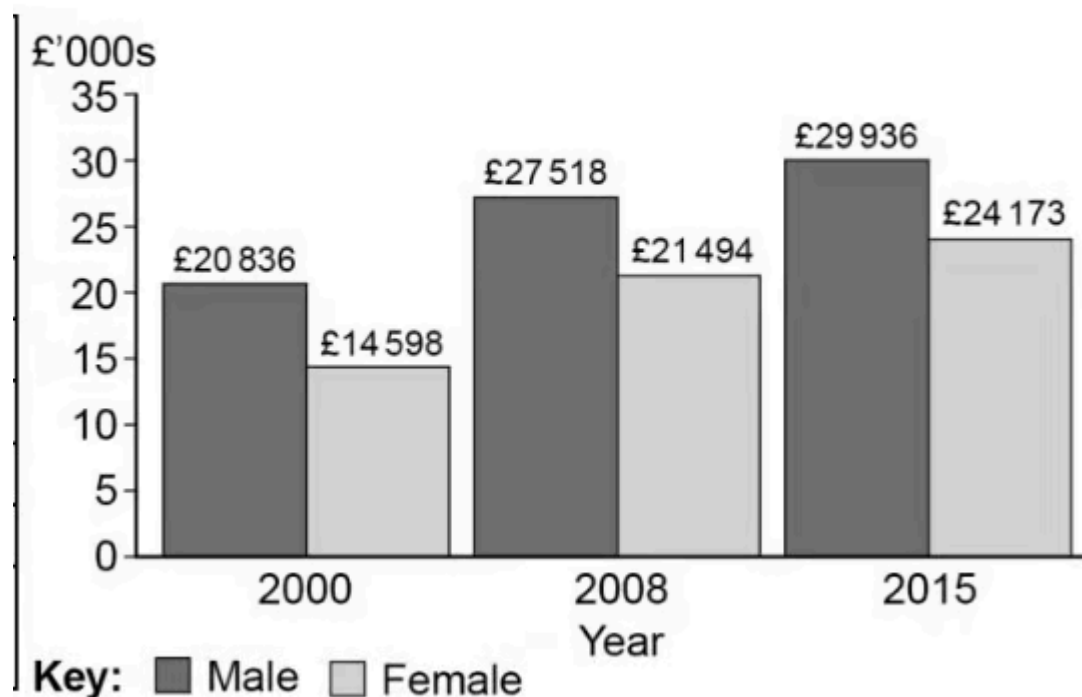| Selected countries	Wage gap (%)	Female labour force participation rate (%)	Male labour force participation rate (%)
Japan	27	66	85
Norway	15	76	80
Slovenia	3	67	74
UK	18	72	83
USA	17	67	78
OECD* average	17	68	80

Source: Official statistics, 2016

Using the data in **Extract D (Figure 3)**, calculate the mean female labour force participation rate for the five countries listed. Give your answer to **one** decimal place

(2 marks)

13

Figure 4: Full-time annual earnings before tax, UK, 2000 to 2015

£'000s

Year	Male	Female
2000	£20 836	£14 598
2008	£27 518	£21 494
2015	£29 936	£24 173

Key: ■ Male ☐ Female

Source: Official statistics, 2016

Explain how the data in **Extract D (Figure 4)** show that the degree of inequality between the pay of male and female workers is falling

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(4 marks)

14 **Extract E** states that 'The tendency for women to participate in low-productivity sectors is now a bigger factor in their low pay than discrimination'

With the help of a diagram, **explain** how the difference between the marginal revenue product of male and female workers might account for the lower average earnings of women

Extract E: Causes of the gender pay gap

Since the Equal Pay Act 1970, it has been illegal to pay men and women differently for the same work. Despite this, the overall pay gap is 19.2%, according to the Office of National Statistics. The pay gap for full-time workers is lower, at 9.4%, and the gap for part-time workers is actually negative, at -6.5%. In the UK, 41% of female workers are part-time, compared to only 11% of males

Prior to the Equal Pay Act, it was common to find firms paying women less than men for comparable work, but since then discriminatory attitudes have lessened to the extent that some economists deny that the wage gap is a problem at all. A recent report found that women working in the same job, and at the same level, are paid just 0.8% less than their male equivalents. Certainly, the pay gap has been shrinking, partly due to demographic and social changes. In earlier times, most senior, highly paid jobs were held by men, while women of the same generation stayed at home. The Government claims that 2.2 million women who are not working want to work. They believe that increasing the female labour force participation rate could add 10% to the size of our economy by 2030, as well as benefiting women directly

Interestingly, women in their twenties currently out-earn men and it is only when they reach their thirties, and perhaps start a family, that the pay gap starts to emerge. Is this due to employers undervaluing female staff once they have had a baby, or to outdated social conventions that women should be the main childcarers? Most of the highest paid jobs in finance, engineering, science and technology are predominantly populated by men, while most of the lowest paid jobs, like caring and hospitality, are largely done by women. 80% of those working in the low paid care and leisure sector are women, compared to only 10% in the better paid skilled trades. The tendency for women to participate in low-productivity sectors is now a bigger factor in their low pay than discrimination

Source: News reports, April 2016

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(9 marks)