OCR
Oxford Cambridge and RSA

Friday 19 June 2015 – Morning

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 2 hours

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer Section A and **one** question from Section B.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to Section B.
- This document consists of **20** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Minimum wages in the UK and the EU

15 years of the National Minimum Wage in the UK

The minimum wage was introduced in the UK in April 1999. At that time, the main rate for workers aged 22 and above was set at £3.60 per hour. A lower rate for workers aged 18 to 21 was also introduced at £3.00 per hour. In 2004 a third, even lower rate, was introduced for 16 to 17 year olds. Every year since it was introduced the main rate has increased and more than ten years after its introduction it reached £6.50 in October 2014. During the same period average earnings and inflation (as measured by the Consumer Price Index) also increased (see Fig. 1).

	UK National Minimum Wage – main rate (£ per hour)	Index of average UK earnings (including bonuses)	UK Consumer Price Index
April 1999	£3.60	100	100
October 2014	£6.50	156 (Oct 2011)	144

Fig. 1 – UK National Minimum Wage, average earnings and inflation

Minimum wages in the European Union (EU)

By January 2014 the majority of the EU's 28 member countries had either passed legislation setting a national minimum wage or a national agreement on minimum wages which varied between different industrial sectors. Monthly minimum wages varied widely, from 174 euros in Bulgaria to 1921 euros in Luxembourg – over 10 times higher.

In 2014 the minimum wage level in the EU was between 30% and 50% of average EU gross monthly earnings. At the higher end of this range France and Belgium were among the countries with a minimum wage which was more than 45% of EU average earnings; while at the lower end, the Czech Republic and Romania had minimum wages which were less than 35% of EU average earnings.

Sweden, Norway and Denmark do not have a national minimum wage. Instead they have a collective agreement between unions and employers.

In February 2012 the Greek government agreed deep cuts to the country's minimum wage; for example a 22% cut in the rate for those aged 25 and above. For those under 25, the cut was even more severe with a 32% reduction. In addition, a public sector wage freeze was imposed.

Time for the EU to set minimum wages?

In recent years there has been a growing belief that wages will be set at an EU level. As a result the EU trade union movement has seen the need to develop a strategy to protect the level of wages of workers in different EU countries.

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In 2009 8.4% of the people employed in the EU were close to or below the poverty threshold. Fourteen per cent of the working people in the EU earned less than 60% of the average wage in the country in which they worked. Almost one fifth of those who earned less than 60% of the average wage in the country in which they worked were at risk of poverty.

One suggestion, therefore, has been to set minimum wages throughout the EU in relative rather than absolute terms. This would involve each member country setting its own national minimum wage in relation to the country's national average wage. A minimum wage level of at least 60% of the national average wage in the member country has been proposed by pressure groups. *30*

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SECTION A

Answer **all** parts of the question in this section.

1 **(a)** **(i)** Using Fig. 1, calculate the percentage change in the main rate of the UK National Minimum Wage between April 1999 and October 2014.

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..... **[2]**

(ii) Explain what has happened to the real value of the UK National Minimum Wage over the period April 1999 to October 2014.

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..... **[2]**

(b) Using marginal revenue product theory, explain why countries such as Greece and the UK have different minimum wage rates for different age groups.

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(c) Using a diagram, analyse the impact of trade unions under a system of collective bargaining.

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(d) Comment on the impact of a public sector wage freeze on the labour market in a country.

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(e) Discuss the case for each EU country setting its minimum wage at 60% of its average national wage. **[8]**

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SECTION B

Answer **one** question from this section.

2 **(a)** Analyse, using examples, why both unemployment and economic inactivity are causes of labour market failure. **[15]**

(b) Discuss the effectiveness of government intervention in reducing labour market failure. **[20]**

3 **(a)** Analyse, using examples, how the number of firms competing in an industry may affect the market equilibrium. **[15]**

(b) Using a leisure industry of your choice, discuss the extent to which it is contestable. **[20]**

4 **(a)** Analyse, using a diagram, how the supply of labour in the short run is determined. **[15]**

(b) Discuss the extent to which the quality and quantity of training provided by an employer is the most important factor determining the long run supply of labour to that occupation. **[20]**

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SECTION B

Question No. .....

Start your answer to part **(a)** here

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Start your answer to part **(b)** here

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

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

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