Past-paper walk-through

Labour market forces and government intervention ▪ 8.3

eXercise

Questions in this set

- 9708/14 N25 Q14 ▪ 1 mark
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Question 14

9708/14 N25 ▪ Q14 ▪ 1 mark

14 When is a minimum wage most likely to help reduce the problem of income inequality?

A Higher paid workers maintain pay differentials.

B Labour mobility is low.

C The informal economy is small.

D The minimum wage leads to increased unemployment.

Solution 14

Answer: **C**

Why

- A minimum wage raises the pay of the lowest earners, which narrows the income gap.
- It works best when the higher-paid do *not* demand matching rises, and when most work is in the formal sector.
- If pay differentials are restored all the way up, the relative gap is unchanged.

Question 10

9708/31 N25 ▪ Q10 ▪ 1 mark

10 Which policy is most likely to contribute to people ending up in a poverty trap?

A legal minimum wage

B means-tested benefits

C prevention of cheaper imports

D proportional taxation

Solution 10

Answer: **B**

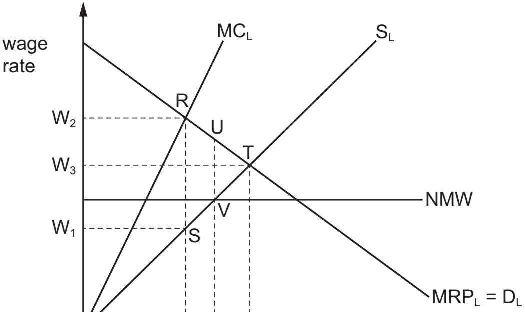
Why

- A poverty trap is where earning more brings little or no gain in net income.
- Means-tested benefits are withdrawn as income rises, which is exactly that.
- So the combination of losing benefits and paying tax can leave someone barely better off for working more.

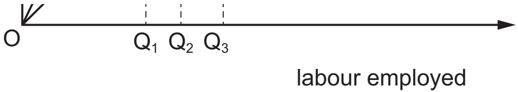
Question 12

9708/31 N25 ▪ Q12 ▪ 1 mark

12 The diagram shows the effect of introducing an effective national minimum wage (NMW) in a labour market with a profit maximising monopsonist employer.



Question 12



What is the effect of the NMW on the deadweight welfare loss in this market?

A It falls from RST to UVT.

B It falls from RSVU to UVT.

C It rises from UVT to RST.

D It rises from UVT to RSVU.

Solution 12

Answer: **A**

Why

- A monopsonist pays below the competitive wage and employs below the competitive level.
- A minimum wage set between the monopsony wage and the competitive wage raises *both* wages and employment.
- That is the case where a minimum wage does not cause unemployment – unlike in a competitive labour market.

Question 18

9708/31 N25 ▪ Q18 ▪ 1 mark

18 What is a likely consequence of an increase in government spending on education?

A increase in the supply of unskilled labour

B increase in occupational mobility

C increase in the rate of unemployment

D increase in trade union power

Solution 18

Answer: **B**

Why

- Education raises skills, so it increases the supply of *skilled* labour.
- Better qualified workers can move between occupations more easily.
- So occupational mobility rises, and productivity with it – the supply of *unskilled* labour falls.

Question 9

9708/33 N25 ▪ Q9 ▪ 1 mark

9 There has been an increase in labour productivity.

Which combination of effects is most likely?

	shift of demand curve for labour	shift of supply curve for labour	effect on wage rate
A	none	inward	increase
B	none	outward	decrease
C	inward	none	increase

Question 9

D	outward	none	increase

Solution 9

Answer: **D**

Why

- Higher labour productivity makes each worker more valuable, so the demand for labour rises.
- The marginal revenue product curve shifts right.
- So the wage rate rises, with the supply of labour unchanged.

Question 10

9708/34 N25 ▪ Q10 ▪ 1 mark

10 There is a decrease in the supply of female labour.

What will the likely effect on male and female wages be?

	male wages	female wages
A	decrease	decrease
B	decrease	increase

Question 10

C	increase	decrease
D	increase	increase

Solution 10

Answer: **D**

Why

- A fall in the supply of female labour shifts that supply curve left, so female wages rise.
- Male and female labour are substitutes, so demand shifts towards male workers.
- So male wages rise too – both wage rates increase.

Question 11

9708/34 N25 ▪ Q11 ▪ 1 mark

11 A government introduces a national minimum wage.

What is **not** a benefit of this to the economy?

A It boosts the morale of workers and enhances labour productivity.

B It raises incomes of poorer workers.

C It reduces government spending on welfare payments.

D It reduces structural unemployment.

Solution 11

Answer: **D**

Why

- A minimum wage can raise morale, productivity and the incentive to work, and reduce poverty.
- But if set above the market-clearing wage it reduces the quantity of labour demanded.
- So the *unemployment* it can cause is the drawback, not a benefit.

Question 13

9708/34 N25 ▪ Q13 ▪ 1 mark

13 Which combination of policies is most likely to reduce the number of low-paid workers caught in the poverty trap?

	individual's tax-free allowance for income tax	national minimum wage in real terms
A	decrease	increase
B	decrease	unchanged
C	increase	increase
D	increase	unchanged

Solution 13

Answer: **C**

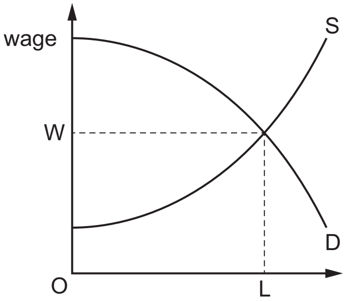
Why

- A poverty trap is where extra earnings are largely lost to tax and withdrawn benefits.
- Raising the tax-free allowance lets low earners keep more of what they earn.
- Withdrawing benefits more gradually has the same effect, so both reduce the trap.

Question 14

9708/34 N25 ▪ Q14 ▪ 1 mark

14 The diagram represents the demand and supply of labour in a competitive industry.



Question 14

labour

What is true about unit of labour L when they are paid wage W?

A L is paid only economic rent.

B L is paid an element of economic rent and transfer earnings.

C L is paid below transfer earnings and leaves the industry.

D L is paid exactly transfer earnings and remains in work.

Solution 14

Answer: **D**

Why

- At wage W the diagram shows how many workers are demanded and how many offer themselves.
- If W is above the equilibrium, supply exceeds demand and some workers are unemployed.
- So the workers at L are those actually employed, and the gap to the supply curve is the excess.

Question 18

9708/34 N25 ▪ Q18 ▪ 1 mark

18 Which government policy is least likely to promote inclusive economic growth?

A increasing the national minimum wage

B investment in transport and infrastructure

C legislation reducing the power of trade unions

D using taxes and transfer payments to redistribute income

Solution 18

Answer: **C**

Why

- Inclusive growth means the gains are shared widely across the population.
- Infrastructure, anti-discrimination law and a higher minimum wage all spread the benefits.
- A policy that concentrates the gains – for example cutting the top rate of tax – is least likely to be inclusive.