A-LEVEL ECONOMICS • EXERCISE SHEET

8.3 Labour market forces and government intervention

Name: ______________ Class: __________ Date: ____________ **Total: 24 marks**

Objective

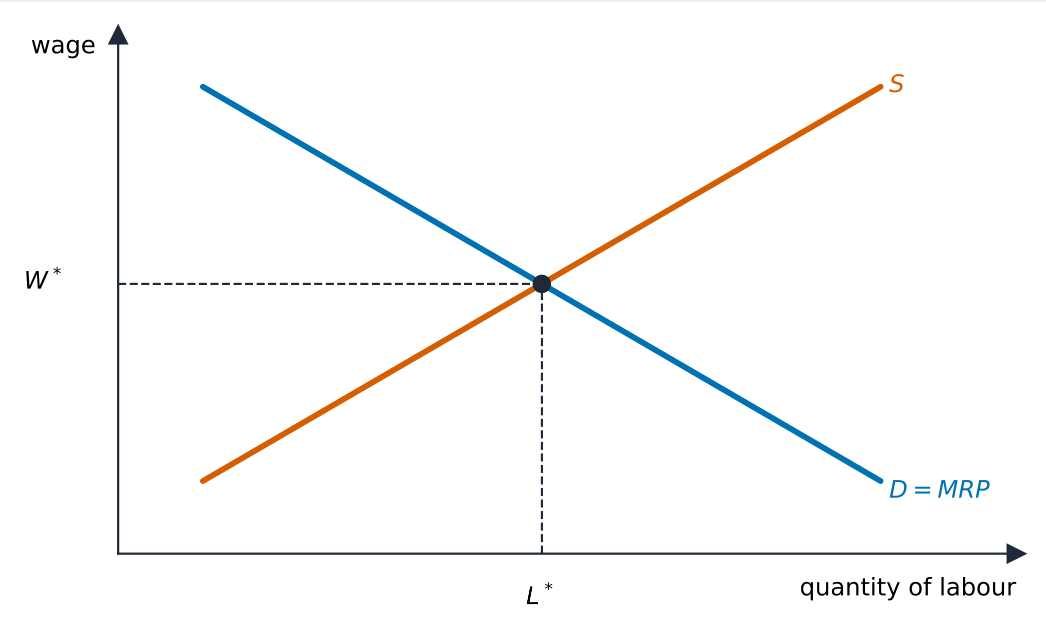
Build the skills to answer exam questions on **labour markets** 劳动力市场—the **demand for labour** (derived demand, **MRP** 边际收益产品), the **supply of labour**, **monopsony** 买方垄断, **trade unions** 工会, the **minimum wage** 最低工资, and **wage differentials** 工资差异.

You must be able to:

- explain labour demand as a derived demand based on MRP
- draw a competitive labour market and a minimum wage
- analyse monopsony, trade unions and wage differentials

1 Worked examples

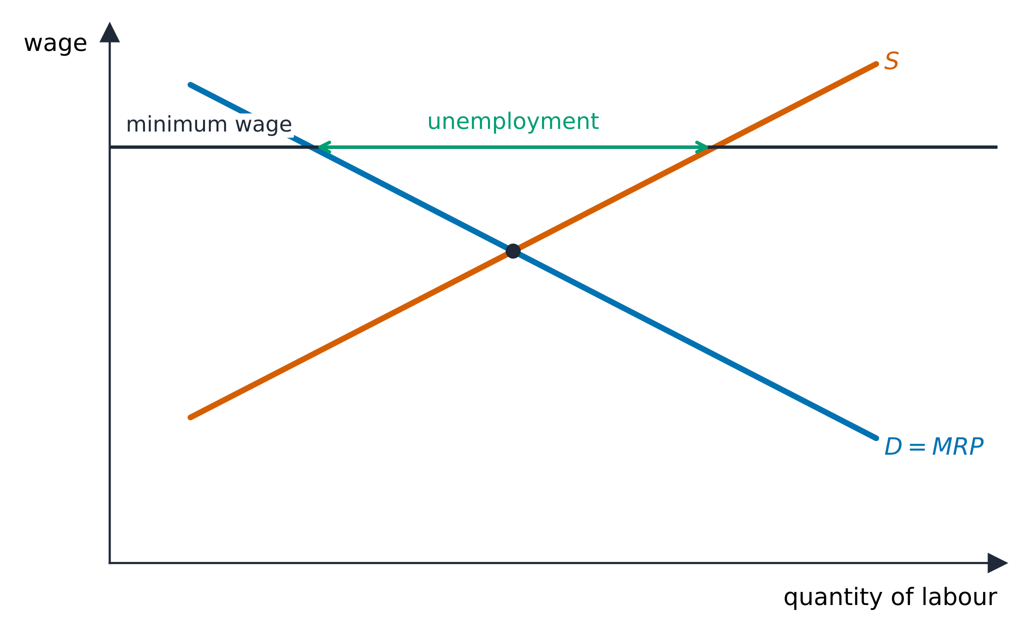
■ The competitive labour market



A wage is the price of labour —set by demand and supply

- **Demand for labour** = a **derived demand** 派生需求 based on the **marginal** revenue product** 边际收益产品 (MRP).

- **Monopsony** 买方垄断: a single dominant **buyer** of labour → lower wage, fewer hired.
- **Trade union** 工会: can raise the wage above the competitive level (but may cut jobs).
- **Minimum wage** 最低工资 above equilibrium → unemployment; but in a monopsony it can raise **both** wage and jobs.



A minimum wage in a competitive market: the gap between labour supplied and demanded is unemployment

Answer shapes: an **Explain [up to 8]** answer may use a labour-market diagram (AO3); **Discuss [12]** adds a judgement (AO4).

2 Practice

2.1 Define the term *derived demand.* [2]

2.2 Define the term *monopsony.* [2]

2.3 State one reason for a wage differential between two jobs. [1]

3 Exam-style questions

3.1 The demand for labour is described as a **derived demand** because it depends on: [1]

- **A** the wage rate alone
- **B** the demand for the goods that labour produces
- **C** the number of trade unions
- **D** the minimum wage

3.2 Using a diagram, explain the effect of a minimum wage set **above** the equilibrium wage in a competitive labour market. [8]

3.3 Discuss whether a national minimum wage is good for an economy. [12]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **8.3 Labour market forces and government intervention** past-paper sheet in the Library, or try these in **Practice mode**:

- 9708/14 N25 —Q14 (labour market)
- 9708/31 N25 —Q10 (MRP / labour demand)
- 9708/31 N25 —Q12 (minimum wage / unions)

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 demand for a factor (such as labour) that arises from the demand for the goods it is used to produce (2 for a clear definition; 1 for a partial idea).

2.2 a labour market with a single, dominant buyer (employer) of labour (2 for a clear definition; 1 for a partial idea).

2.3 any one of: differences in MRP/productivity; training and qualifications needed; risk or unpleasantness of the work; discrimination (1).

3.1 B. Labour demand is derived from the demand for the goods labour produces.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (labour demand and supply, minimum wage above W^*, excess supply of labour) + AO2/AO3 up to 3 —above the equilibrium wage, the quantity of labour supplied exceeds the quantity demanded → firms hire fewer workers while more people want jobs → the gap is unemployment; the size depends on the elasticity of labour demand.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** raises low pay, reduces poverty and in-work inequality, and can raise both pay and jobs in a monopsony. **Against:** in a competitive market it can cause unemployment, raise firms' costs and prices, and may push some work into the informal economy. Judgement: the effect depends on the market structure and how high the wage is set —modest minimums help, but very high ones risk job losses.