Solutions

Marking: **K** = knowledge, **App** = using the data or case, **An** = analysis (explaining each step: cause, then effect), **Ev** = evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer. Longer answers are marked in levels: the top level needs clear analysis **and** a judgement with a reason.

Each answer shows the steps, then the **result**.

2.1

- $MRP = 12 \times 8 = \$96$
- yes: \$96 is more than the \$90 wage

2.2

- $-4\% \div 10\%$
- $\mathbf{-0.4}$

3.1

- firms do not want workers for their own sake (K)
- they want them to produce goods and services that consumers buy (K)
- so if demand for the product rises, demand for the workers who make it rises too (An)

3.2

Any three (K each): long training limits the supply of doctors; doctors have a high MRP; skills are scarce; demand for health care is high and inelastic; professional bodies limit entry; cleaners' jobs need few skills, so supply is large

3.3

- a union bargains for a wage above the market wage (K)
- the employer must pay at least this wage, so labour supply becomes horizontal at the union wage (An)
- at the higher wage firms demand fewer workers, so employment may fall (An)
- unless productivity rises, or the employer is a monopsony, in which case employment may not fall (Ev)

3.4

(a) $460\,000 - 400\,000$; **60 000** workers

(b) points to include:

- a monopsony is the only main employer, so it faces the whole upward-sloping supply curve (K)
- to hire one more worker it must raise the wage for all, so the marginal cost of labour is above the supply curve (An)
- it hires where $MCL = MRP$ and pays a low wage from the supply curve (An)
- a minimum wage set between this wage and the competitive wage makes the marginal cost of labour flat at the minimum wage (An)
- so the firm hires more workers at a higher wage (An)

Levels: **top** (5–6) clear analysis, each step explained, with a correct diagram; **middle** (3–4) some analysis, or a diagram with little explanation; **bottom** (1–2) relevant points, little explanation.

(c) points to include:

- for: raises the pay of the lowest earners and reduces in-work poverty (An)
- may raise motivation and productivity, and reduce staff turnover (An)
- against: in a competitive market it creates unemployment, as in (a) (App)
- firms may cut hours, training or jobs, or raise prices (An)
- the effect depends on how high it is compared with average wages, and on the wage elasticity of demand for labour (An)
- judgement: a moderate rise helps low-paid workers with little job loss; a large rise risks unemployment among the least skilled; tax credits may help too (Ev)

Levels: **top** (9–12) clear analysis of both sides and a conclusion with reasons that answers the question; **middle** (5–8) analysis of both sides with limited evaluation, or one side well; **bottom** (1–4) relevant points, mostly descriptive.