

Exercise walk-through

6.1

Labour and policy: introductory reasoning

Pearson Edexcel · International A-Level · Economics

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The method

Method — Worked example

Labour demand is derived from the output workers help produce. In the simplified price-taking output model, marginal revenue product (MRP) equals additional physical output times the constant selling price. Compare it with the relevant additional employment cost over the same time period. A wage difference alone does not establish a productivity difference: scarce skills, job conditions, bargaining and discrimination can also matter.

A union can bargain collectively for pay or conditions. Its effect depends on bargaining strength, employer response and the labour-market setting. A minimum wage is a legal wage floor. In the simple competitive model a binding floor can increase labour supplied relative to labour demanded; it does not imply the same employment response under every institutional setting. Competition policy addresses restrictions on competition through investigation and enforceable responses; it cannot be evaluated solely by counting large firms. For each policy identify the objective, mechanism,

Method — Worked example

affected people and a material limitation. These are introductory distinctions, not a substitute for the held detailed wage-setting and competition-policy targets.

One additional worker produces eight saleable units per day, each adding 12 currency units of revenue. The wage is 80 currency units/day and additional administration costs 10/day. Calculate the additional contribution before other costs and state a hiring condition.

$MRP = 8 \text{ units/day} \times 12 \text{ currency units/unit} = 96 \text{ currency units/day}$. Additional employment cost $= 80 + 10 = 90 \text{ currency units/day}$. The model's additional contribution is $96 - 90 = 6 \text{ currency units/day}$, before any other relevant costs. Hiring is supported only if the output can actually be sold at that marginal revenue and the full additional cost does not exceed the additional revenue. If marginal revenue falls, a constant-price calculation may overstate MRP. This is not an instruction to equate a person's worth with revenue.

Exercise 2.1

2.1 Use the worked case to explain the relevant method, its application and a material condition. [3]

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Exercise 3.1

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3.1 The higher wage raises cost, while useful training may raise saleable output or quality and therefore MRP. The employment effect needs the sizes, timing, product demand and actual employer response. Training attendance alone does not establish a productivity gain. Compare outcomes for workers retained, applicants and consumers. A competition investigation instead needs evidence of restrictive behaviour, entry and alternatives; a wage agreement alone does not establish product-market abuse. Preserve the introductory limit: detailed monopsony, union and competition-policy models remain in the full-target queue. Authored points for judgement, case-linked reasoning and qualification. Accept justified alternatives.