

Labour markets and government intervention

Pearson Edexcel · International A-Level · Economics

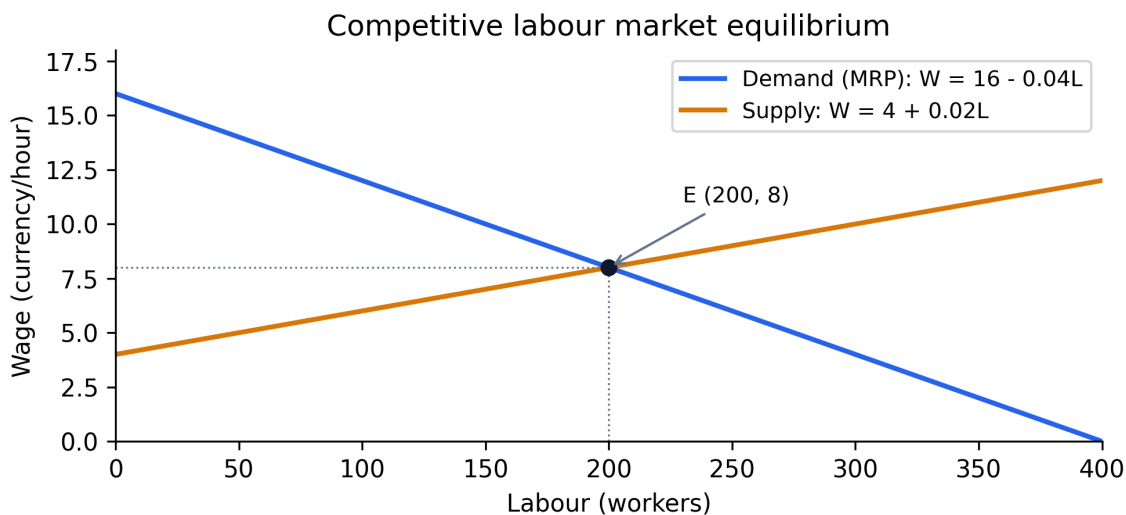
Pearson Edexcel International A Level Economics (WEC13), specification Issue 2, June 2018. This topic covers spec sections 3.3.4–3.3.5 in full: labour markets (four rows) and government intervention in product and labour markets (two rows) – 19 lettered objectives. The labour model is shared with the existing sheet 5.2 monopsony numbers: supply $W = 4 + 0.02L$, demand (MRP) $W = 16 - 0.04L$, equilibrium $L = 200$, $W = 8$.

Must-know for this topic:

Family	Relationship
labour demand	derived from the product: $MRP = MP \times \text{product price}$
equilibrium	supply $W = 4 + 0.02L$ meets demand $W = 16 - 0.04L$ at $(200, 8)$
wage controls	min wage 9 $\rightarrow L_d$ 175 vs L_s 250 (75 unemployed); max wage 6 $\rightarrow L_d$ 250 vs L_s 100 (shortage 150)
intervention	product-market measures (six families) with five impact axes and four limits

The demand for and supply of labour

The demand for labour in an occupation is a **derived demand** – it follows demand for the final product; it also follows labour PRODUCTIVITY, the price of the product, and the wage rate relative to the price of capital (3.3.4.1a). The ELASTICITY of labour demand depends chiefly on the elasticity of demand for the product, the proportion of labour in costs, the substitutability of capital, and time (3.3.4.1b). The SUPPLY of labour to an occupation responds to the size of the population, net migration, income tax rates, the level of welfare benefits, government regulations and **trade unions** (3.3.4.2c); its elasticity depends on the time period, the vocationalness of skills, and geographic and occupational mobility (3.3.4.2d).



Original model: supply $W = 4 + 0.02L$, demand $W = 16 - 0.04L$, equilibrium (200, 8).

Wage determination and labour market failure

Competitive equilibrium sets the wage where supply meets demand: $4 + 0.02L = 16 - 0.04L$ gives $0.06L = 12$, so $L = 200$ workers and $W = 8$ per hour (3.3.4.3a). A shift in EITHER curve moves the equilibrium: product demand up shifts MRP right (higher wage AND employment); migration or benefit reform shifts supply (3.3.4.3b). In the PUBLIC SECTOR, wages are often set by bargaining and budget formulas rather than the market – a pay review body can leave public wages above or below market-clearing levels (3.3.4.3c). Market failure: **geographical immobility**

(housing costs, family ties, region information) leaves unemployment in one region beside vacancies in another; **occupational immobility** (training costs, skill specificity, discrimination) traps workers in declining occupations – both cause persistent mismatch unemployment (3.3.4.4).

Government intervention in product markets

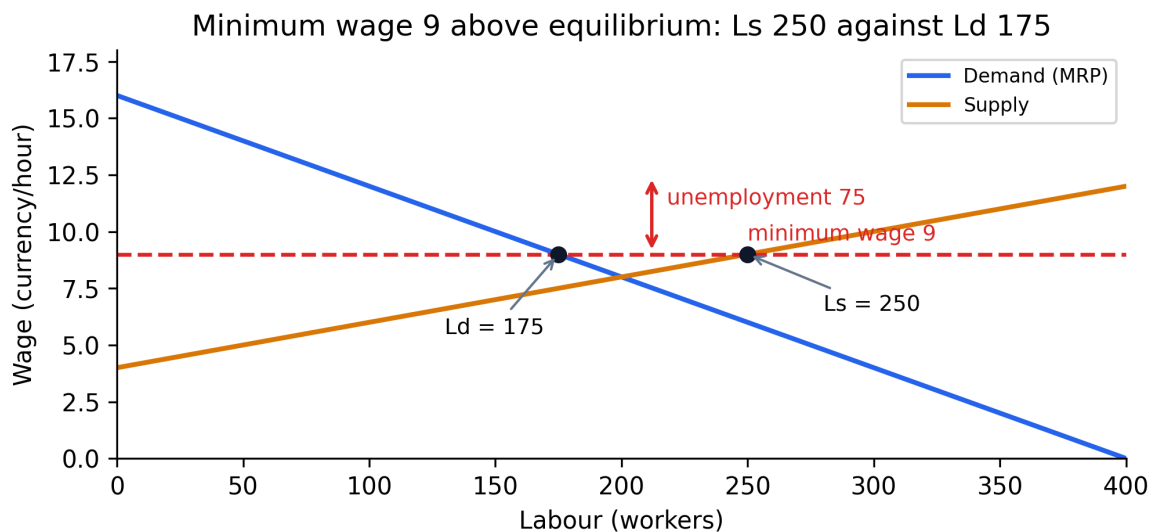
The case for intervention (3.3.5.1a): market power (monopoly and monopsony from topics 2 and 5), externalities, information gaps and equity. To control MONOPOLIES AND MERGERS (3.3.5.1b): price regulation (RPI – X caps), profit regulation, quality standards, performance targets, referral to regulatory authorities, and merger-control legislation. To promote COMPETITION AND CONTESTABILITY (3.3.5.1c): tax incentives and grants for small businesses and FDI, deregulation, **privatisation**

, competitive tendering for public contracts, and trade liberalisation. To protect SUPPLIERS AND EMPLOYEES (3.3.5.1d): local sourcing rules, employment legislation against exploitation, barriers to foreign entrants, restrictions on monopsony power, and **nationalisation**. Each measure moves PRICE, PROFIT, EFFI-

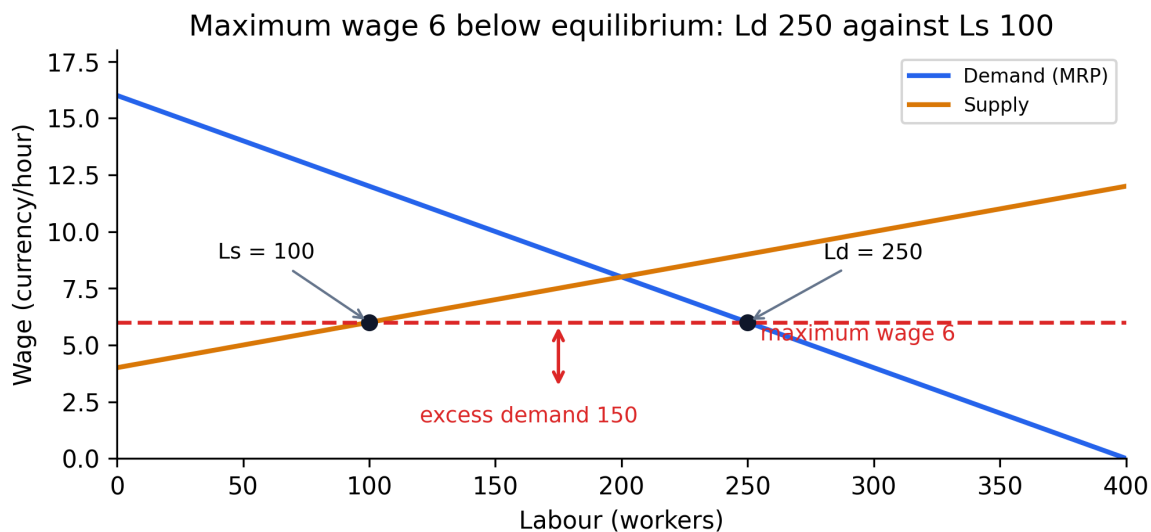
CIENCY, QUALITY and CHOICE (3.3.5.1e) – the five impact axes examiners want addressed. LIMITS to intervention (3.3.5.1f): **regulatory capture** (the regulator serves the regulated), asymmetric information, inadequate resources, and lack of regulatory power.

Government intervention in labour markets

The case (3.3.5.2a): monopsony exploitation (wages below MRP), in-work poverty, immobility, discrimination and exploitation. The instruments (3.3.5.2b): **maximum wage** controls (rare – public-sector pay caps: a max wage of 6 in our model leaves demand 250 against supply 100, a shortage of 150 – vacancies unfilled); **minimum wage** (a floor of 9 lifts Ls to 250 but cuts Ld to 175: 75 workers unemployed, though each employed worker earns more and poverty may fall); direct taxes such as national insurance and corporation tax (raise the cost of employing); measures to reduce immobility (training, relocation grants, housing supply – attacking the root causes of section 3.3.4.4); and anti-discrimination and anti-exploitation law.



Original model: at the 9 floor, Ls 250 against Ld 175 – 75 unemployed workers.



Original model: at the 6 cap, Ld 250 against Ls 100 – a shortage of 150 workers.

Checklist

- Labour demand as derived demand with its four influences; its elasticity factors (3.3.4.1).
- Labour supply with its six influences; elasticity of supply (3.3.4.2).
- Competitive equilibrium (200, 8) from the model; shift analysis; public-sector wage setting (3.3.4.3).
- Geographical and occupational immobility: causes and consequences (3.3.4.4).
- The case for product-market intervention; the six monopoly-control, five competition-promotion and five supplier/employee-protection measures; the five impact axes; the four limits incl. regulatory capture (3.3.5.1).
- Labour-market intervention: maximum wage 6 (shortage 150), minimum wage 9 (75 unemployed), direct taxes, mobility measures, anti-discrimination (3.3.5.2).

Boundary notes: WEC13 essays carry 12 KAA + 8 evaluation marks with level caps for missing diagrams or named groups. Wage-control answers must show BOTH quantities and the gap, and minimum-wage evaluation should weigh the unemployment count against the distributional gain (and note that with a MONOPSONIST employer, a well-placed minimum can RAISE employment). Worked numbers are original on the model shared with sheet 5.2.