

General Certificate of Education
June 2004
Advanced Level Examination



ECONOMICS **ECN5**
Unit 5 Business Economics and the Distribution of Income

Monday 28 June 2004 Morning Session

In addition to this paper you will require:
an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN5.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information

- The maximum mark for this paper is 100.
- Mark allocations are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice

- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

Answer **all** parts of this question.

1**Total for this question: 50 marks**

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

Extract A: Trade union membership in the United Kingdom, 1989–2000

This was two graphs. One graph showed the trade union membership as a percentage of full-time and part-time employees. The other graph showed male and female union members as a percentage of full-time and part-time male and female employees. They have not been reproduced here due to third-party copyright constraints.

Extract B: The decline of collective bargaining as a method of determining workers' pay

Collective bargaining and employer determination are two methods used to set workers' pay. Collective bargaining involves trade unions negotiating with employers, collectively on behalf of workers, to set levels of pay. With employer determination, management sets pay without negotiating with trade unions.	1
Since 1980, employer determination has grown in importance in the UK and collective bargaining has declined. These changes, which have occurred in both the private and public sectors, have been greater in the private sector. Though declining, collective bargaining still remains the norm in the public sector. Throughout the economy, only 40 per cent of employees had their pay set by collective bargaining in 1998, compared with 70 per cent in the mid-1980s.	5
There are a number of factors contributing to these changes. These include changes in the structure of the economy, changes in workers' perceptions of the benefits and costs of union membership, and the impact of government policies aimed at creating a more flexible labour market.	10

Extract C: Must union pay rises be at the expense of jobs?

Many people believe that trade unions raise wages for their members, but only at the expense of jobs. The theory of a perfectly competitive labour market supports this view. But in the real world, labour markets are imperfectly competitive, in extreme cases being monopsonistic. In a monopsony labour market there is just one employer. Think of the monopsonist as the mirror image of a monopolist, with dominant buying power rather than dominant selling power.	1 5
In a market for a good or service, a monopolist would prefer to sell less at a higher price than to increase output, see prices fall and lose profits on existing sales. However, if a regulator imposes a price cap which forces the monopolist to cut prices towards a competitive level, it is in the monopolist's interest to offset the lost profit margin on each unit sold by increasing output and sales.	10
Just as a monopolist restricts output and raises the price (compared to a competitive product market), so a monopsonist employs fewer staff than would be employed in a perfectly competitive labour market, and pays a lower wage rate. Compared to a perfectly competitive labour market, a monopsonist employer drives the wage rate down. Because workers cannot go elsewhere, they are paid less than their worth to the firm and end up being exploited. If, in this situation, a trade union forces the employer to pay a higher wage rate, approaching or equal to the perfectly competitive wage rate, employment may also rise towards the perfectly competitive level of employment.	15

Question 1

- (a) Using the evidence in **Extract A**, describe the main changes in membership of trade unions that occurred in the United Kingdom between 1989 and 2000. *(4 marks)*
- (b) **Extract B** (lines 10–13) identifies three reasons for the changes in the relative importance of collective bargaining and employer determination as methods of setting pay in the UK. Explain **two** of these reasons. *(6 marks)*
- (c) “In a market for a good or service, a monopolist would prefer to sell less at a higher price than to increase output, see prices fall and lose profits on existing sales” (**Extract C**, lines 6–7).
Analyse this statement. *(10 marks)*
- (d) Using the data and your economic knowledge, evaluate the view that “trade unions raise wages for their members, but only at the expense of jobs” (**Extract C**, lines 1–2). *(30 marks)*

Turn over ►

SECTION B

Answer **one** question from this Section.

Each question carries 50 marks.

- 2 (a) With the use of examples, explain the various barriers to entry to a market **and** how these barriers might affect market structure. *(20 marks)*
- (b) In the past, utility industries, such as the postal service, electricity and gas, have been heavily protected by entry barriers. Evaluate the possible effects on efficiency and resource allocation of removing these barriers. *(30 marks)*
- 3 (a) Explain the meaning of price discrimination **and** the conditions necessary for price discrimination to take place. *(20 marks)*
- (b) Evaluate the view that, because price discrimination enables firms to make more profit, firms, but not consumers, benefit from price discrimination. *(30 marks)*
- 4 (a) Explain the main features of cost benefit analysis **and two** problems encountered in its use. *(20 marks)*
- (b) The government is considering widening all the main motorways in the UK from three to four lanes in order to reduce traffic congestion.
- Evaluate the view that a decision to widen major motorways can be justified because private motorists and industry will benefit. *(30 marks)*

END OF QUESTIONS

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G/M131002/S04/ECN5