

# Mark Scheme (Standardisation) Summer 2009

GCE

GCE Economics (6355/01)

## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	<p>KAA 9 marks (3+3+3)</p> <p>Award three reasons.</p> <p>Reasons might include:</p> <ul style="list-style-type: none"> <li>• many workers, who can be easily replaced - PED/PES</li> <li>• not directly employed - easier to 'hire and fire' or fee taken by agency</li> <li>• permanent workers are paid more as a financial incentive for retention</li> <li>• sellers of labour have less market power - monopsony</li> <li>• and less unionisation</li> <li>• MRP or productivity analysis; e.g. lower MPP or MRP</li> <li>• not comparing 'like with like'</li> <li>• permanent workers might be receiving more training and other investment in human capital</li> <li>• temporary workers may lack expertise, experience and/or skills</li> <li>• discrimination e.g. ethnic minorities, gender - reward data use</li> </ul> <p>Evaluation 6 marks (2+2+2). Factors might include:</p> <ul style="list-style-type: none"> <li>• Questioning of MRP analysis.</li> <li>• The degree of monopsony power</li> <li>• these wage differentials are a reward for loyalty for those in permanent jobs</li> <li>• it may be that permanent staff have more access to promotion (glass ceiling)</li> <li>• permanent workers are currently more expensive to remove so they are offered more incentives to work hard</li> <li>• productivity may change with rates of pay</li> <li>• degree of elasticity (PED/PES)</li> <li>• prioritisation with justification</li> </ul>	(15)

Question Number	Answer	Mark
1(b)	<p><b>KAA 9 marks (3+3+3)</b></p> <p>Award three aspects:</p> <p><b>Wage changes: 3 marks</b></p> <ul style="list-style-type: none"> <li>• wages increase</li> <li>• need to match the level of workers doing equivalent work</li> <li>• increasing costs for firms</li> <li>• use of data</li> </ul> <p><b>Employment changes: 3 marks</b></p> <ul style="list-style-type: none"> <li>• Employment levels decrease</li> <li>• Firms' demand for labour contracts</li> <li>• Agencies cut back on recruitment</li> <li>• Use of data</li> </ul> <p><b>Do not reward changes to unemployment</b></p> <p><b>Diagram: 3 marks</b></p> <ul style="list-style-type: none"> <li>• Accept higher wage floor diagram</li> <li>• Accept shift left in demand for agency workers as firms adapt their employment policies</li> <li>• Accept monopsony diagram</li> </ul> <p><b>Alternative approach: accept well argued monopsony analysis with diagram up to 9 KAA marks</b></p> <p><b>If no valid diagram award maximum of 6 out of 9 KAA marks</b></p> <p><b>Evaluation 6 marks (3 x 2 marks or 2 x 3 marks) might include:</b></p> <ul style="list-style-type: none"> <li>• supply of agency workers is likely to fall if agencies start going out of business</li> <li>• depends on the degree of monopsony power of employers</li> <li>• possible increased participation levels might mean increased employment if there are jobs available</li> <li>• changes over time</li> <li>• small businesses may be affected more than large ones</li> <li>• impact depends on the state of the economy</li> <li>• degree of elasticity of PED/PES</li> <li>• questioning the validity of the data</li> <li>• reaction of full time staff e.g. pay demands to maintain differentials</li> <li>• efficiency wage theory - e.g. that higher wages might increase productivity</li> </ul>	(15)

Question Number	Answer	Mark
1(c)	<p>KAA 9 marks (3 x 3 marks or fewer points well developed)</p> <p>Analysis of three likely effects of Working Time Directive opt-out on the UK economy. Effects might include:</p> <ul style="list-style-type: none"> <li>• Labour market flexibility - lower unit costs, relatively, in UK rather than EU. May be linked to monopsony, which could benefit from exploitation of workers</li> <li>• Increased employment in the UK as firms are attracted by the labour market and less in the EU</li> <li>• Increased unemployment e.g. firms less inclined to take on unemployed as those currently in work can have their hours increased</li> <li>• Increased overall productivity rates e.g. More efficient use of labour and capital combined</li> <li>• Reduced demand for part-time workers</li> <li>• Social implications e.g. quality of life, family breakdown</li> <li>• Award macro benefits e.g. higher incomes of employees have multiplied effects, inflow of investment</li> <li>• Weakening of trade union power</li> </ul> <p>Evaluation 6 marks (3 x 2 marks or 2 x 3 marks) points might include:</p> <ul style="list-style-type: none"> <li>• WTD might improve morale and incentives in the workforce</li> <li>• WTD preserves quality of human capital over time</li> <li>• Opting out of European agreements marginalises the effectiveness of UK in other policy matters</li> <li>• Hourly productivity might fall, although per worker productivity might be higher in the UK</li> <li>• Potential weakness in the economy in need to compromise over agency workers' rights</li> <li>• Worsening relations for the UK within the EU</li> <li>• Workers might not opt to work the extra hours</li> </ul>	(15)

Question Number	Answer	Mark
1(d)	<p><b>KAA 9 marks (3 x 3 marks or fewer points well developed)</b></p> <p>Accept answers either narrowly focused on agency workers or more widely argued. Factors might include</p> <ul style="list-style-type: none"> <li>• Membership of trade unions tends to rise as hardship increases but falls in very high rates of unemployment.</li> <li>• Trade unions are more effective if demand for labour is strong i.e. in an economic boom</li> <li>• Trade unions less effective in recession if there are fewer profits to redistribute</li> <li>• Analysis of monopoly supply of labour</li> <li>• Priorities of trade unions vary depending on the economic cycle</li> <li>• Agency workers less likely to get their requests fulfilled as employers are more cautious in recessionary times.</li> <li>• WTD may cause problems for firms, and employment might fall further.</li> <li>• Involvement of multinational corporations</li> <li>• PED/YED analysis; derived demand</li> </ul> <p><b>Mark cap 6/9 marks if no reference to <i>both</i> wages and employment</b></p> <p><b>Evaluation 6 marks (3 x 2 marks or 2 x 3 marks).</b> Factors might include:</p> <ul style="list-style-type: none"> <li>• Increased rights of workers diminishes scope of trade unions</li> <li>• Depth and longevity of the slowdown in the UK</li> <li>• Inaccurate or misleading data</li> <li>• Depends on size and influence of trade unions, and sector</li> <li>• Changing role of trade unions as they become stakeholders</li> <li>• Questioning the degree of PED for final product e.g. to what extent labour can be replaced with capital</li> </ul> <p>Other factors apart from the state of the economic cycle determine the effectiveness of trade unions e.g. increasing in importance amongst part time workers and women</p>	(15)

Question Number	Answer	Mark
2(a)	<p>KAA 6 marks (3 +3).</p> <p>Accept any <b>two</b> reasonable factors (3 marks each). Factors might include:</p> <ul style="list-style-type: none"> <li>• Strength of unions or other bargaining power issues. Reward use of data in Figures 1 and 2</li> <li>• State of the economic cycle/level of GDP</li> <li>• State of economic development e.g. secondary/tertiary comparisons</li> <li>• Whether or not the country is part of the euro will determine the purchasing power - Czech Rep and Poland figures represent higher effective wages</li> <li>• MRP analysis of the value of a workers' output and the value of the final product. This could count as two factors.</li> <li>• Priority given to income equality in government policy</li> <li>• Cost of living</li> <li>• Index linking</li> <li>• Size of the welfare state e.g. level of benefits</li> </ul> <p>Evaluation 4 marks (2 + 2).</p> <p>Factors might include:</p> <ul style="list-style-type: none"> <li>• Unreliable, missing or misleading data - e.g. use of euro as common currency, no reference to source year in Figure 1; no reference to comparative productivity; no reference to the percentage affected by NMW or exemptions</li> <li>• Hidden economy</li> <li>• Luxembourg (or other countries in the Figures) has unique factors which cannot simply be explained using the labour markets analysis</li> <li>• Exceptions in data e.g. Greece has high union density but relatively low minimum wage</li> <li>• Factors which might change the data in the future, e.g. skilled Polish workers returning home</li> </ul>	(10)

Question Number	Answer	Mark
2(b)	<p>KAA 9 marks. Award three factors (3+3+3).</p> <p>Factors might include:</p> <ul style="list-style-type: none"> <li>• Lack of minimum wage - 'recent pay awards have been lower than elsewhere - Extract 1 lines 19 to 20</li> <li>• Trade unions and employers with strong powers of negotiation without interference from government Extract 1 Lines 10-11</li> <li>• MRP analysis e.g. executive salaries (extract 1 line 4) and/or marginal cost analysis</li> <li>• State of the economic cycle - widens differentials when growth rates high?</li> <li>• Union density below average in Germany (Fig 2)</li> <li>• Monopoly and monopsony theory e.g. in different sectors such as hairdressers Ext 1 Line 2</li> <li>• Job insecurity by the low paid owing to fear of international competition, Extract 1 Line 14</li> <li>• Discrimination</li> <li>• Temporary workers with lower pay, Extract 1 Line 20</li> <li>• Working conditions</li> <li>• PED/PES analysis; derived demand</li> <li>• Skills, education, experience and training</li> </ul> <p>Evaluation 6 marks (2+2+2) Factors might include:</p> <ul style="list-style-type: none"> <li>• Extract 1 line 27 minimum wage would wipe out 1.1m low-wage jobs. While this might appear to narrow wage differentials it will worsen income differentials</li> <li>• Luxembourg has high correlation between union density and minimum wage - reinforces union argument</li> <li>• Other things might not be equal. E.g. The high level in manufacturing in Germany which is particularly sensitive to globalisation, increasing competitiveness hence forcing down wages.</li> <li>• Factors which might change the data in the future e.g. government policy, introduction of minimum wage</li> </ul>	(15)



Question Number	Answer	Mark
2(c)	<p><b>KAA 12 marks (3 x 3 marks or fewer points well developed).</b></p> <p>Accept <b>four</b> factors for or against the case for minimum wages, or a combination of both. The following three implications must be included, though they may be combined as a result of one factor:</p> <p><b>Answers must address the 3 aspects: 'blunt tool', 'stifle competition' and 'destroy jobs'</b></p> <p>Factors might include:</p> <ul style="list-style-type: none"> <li>• Blunt tool for fighting poverty - that is, effects not specifically on the poor. Reward definitions e.g. absolute/relative poverty, 60% median incomes</li> <li>• Stifle competition - that is, create inflexibility in the labour market, increased costs, loss of international competitiveness against lower wage countries</li> <li>• Could destroy jobs - effects on levels or employment. Award use of an NMW diagram.</li> <li>• Minimum wages might only affect second or third earners in a household</li> <li>• They have no impact if people cannot find work</li> <li>• People might lose their jobs which would worsen poverty</li> <li>• An NMW can provide an incentive to look for work</li> <li>• Efficiency wage theory - people will work harder if they are paid more, and/or firms will have to become more efficient</li> <li>• Other macro impact of NMW e.g. multiplied growth, inflationary pressures</li> </ul> <p><b>Mark cap 9/12 marks if all three aspects are not referred to</b></p> <p><b>Evaluation 8 marks (4 x 2 marks or 2 x 4 marks)</b></p> <ul style="list-style-type: none"> <li>• Depends on PED and PES</li> <li>• Depends on the demand for the final product</li> <li>• Monopsony argument</li> <li>• Other policies might be more effective - or other prioritisation</li> <li>• Moving in and out of jobs is thought to be more a cause of poverty than joblessness itself</li> <li>• Poverty is a multi-dimensional concept and very hard to measure, and questioning of other definitions</li> </ul>	(20)

Question Number	Answer	Mark
2(d)	<p>KAA 9 marks (3+3+3).</p> <p>Award <b>three</b> policies</p> <p>Policies might include:</p> <ul style="list-style-type: none"> <li>• Action by government as an employer, e.g. Positive discrimination</li> <li>• Regional policy if linked to poor regions</li> <li>• Income support</li> <li>• Subsidies to firms</li> <li>• Other benefit changes</li> <li>• Tax. Award use of Lorenz curve to illustrate this</li> <li>• Legislation</li> <li>• Reduction in working time (if this increases employment) or increase in working time (if this increases final take-home pay)</li> <li>• Education and training</li> </ul> <p>Allow wider macro policies such as import substitution, leaving the euro, cutting the interest rate.</p> <p><b>Evaluation 6 marks (2+2+2)</b></p> <p>Factors might include:</p> <ul style="list-style-type: none"> <li>• Poverty is a multi-dimensional concept and very hard to measure</li> <li>• Prioritisation of policies, with justification</li> <li>• Consideration of side effects which might limit the effectiveness of the policies, e.g. The need to increase tax rates might act as an impediment to poverty reduction</li> <li>• Consideration of the magnitude of wage or price elasticity of demand or supply</li> <li>• Time lag and other dynamic analysis</li> <li>• Other things are not equal - e.g. The EU might make policies which counteract the effectiveness, e.g. Fiscal constraints</li> </ul>	(15)

Question	KAA	EVALUATION	TOTAL
1			
(a)	9	6	15
(b)	9	6	15
(c)	9	6	15
(d)	9	6	15
2			
(a)	6	4	10
(b)	9	6	15
(c)	12	8	20
(d)	9	6	15