

Economics

Advanced GCE **2884**

Economics of Work and Leisure

Mark Scheme for June 2010

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Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annesley
NOTTINGHAM
NG15 0DL

Telephone: 0870 770 6622
Facsimile: 01223 552610
E-mail: publications@ocr.org.uk

- 1 (a) **Using the data in Fig. 3, summarise the main features of income inequality in the UK over the period 1986-2006.** [2]

1 mark each for each of 2 valid features. The most likely are: that Gini is greater, and so inequality is greater, for Original Income than for After-tax Income, in each year; that inequality increased slightly between 1986 and 1996; that inequality of Original Income stayed the same 1996-2006, though inequality of After-tax Income grew slightly over the same period.

[NB It is not sufficient merely to state Gini numbers; answers must draw correct conclusions re inequality]

- (b) (i) **Using the data in Fig. 2, summarise the main differences between Original and Final Income across the UK's income distribution.** [2]

The important point is that Original Income is greater than Final Income at higher levels of income but Final Income is greater at lower levels. 1 mark for each aspect.

- (ii) **Explain two possible reasons for these differences.** [4]

Up to 2 marks for each of two explanations of a valid reason – in each case, 1 for identification of the reason, plus 1 for explanation of it, which must link to the relevant difference. The most likely reasons to be given are that there are more cash benefits for poorer households, proportionately greater direct taxes subtracted from the top quintile, probably more benefits in kind for the bottom quintile.

[NB Some answers require credit to be transferred from part [i] to part [ii], and vice-versa]

- (c) (i) **Using Fig. 1, compare the level of relative poverty in Macclesfield with that in the North-West and in England as a whole.** [2]

1 mark for each of two valid comparative statements made – but each must be comparative. Examples are; relative poverty in Macclesfield is less extensive than in either the North West or England as a whole; there is greater poverty in the North West than in England as a whole.

- (ii) **Comment on how an increase in the level of the UK's national minimum wage is likely to impact on the extent of poverty in Macclesfield.** [4]

Up to 2 marks for explanation that a rise in the national minimum wage has its primary impact on those in work who are paid a low wage; but it raises the average wage as well as that of these low-paid. Up to 2 further marks for an appropriate comment, which should refer to the specific case of Macclesfield, where the impact on the extent of poverty depends on the status of the 19.4% of households who originally received below 60% of the original median income. Comment may also refer to what the effect of raising the NMW might be – e.g. it might increase unemployment – and the consequences of this for the extent of poverty.

- (d) **Economic growth often coincides with greater income inequality. Discuss whether income inequality is an inevitable side-effect of increased economic growth.** [6]

Meaning of economic growth, as increase over time in output or living standards [or potential output]. Explanation of why this might result in greater inequality – perhaps policy of reduced direct taxes to increase incentives to produce, perhaps reduced cash benefits to force less voluntary unemployment. Explanation of possible counter effects – e.g. economic growth may enable greater provision of benefits, in cash or in kind, to low-income households.

Level 2	For a two-sided discussion; maximum of 4 if only considers one side; maximum of 5 if ignores the 'inevitable' aspect	3-6
Level 1	For explanation of increased economic growth	1-2

SECTION B

- 2 (a) Explain how the earnings of a worker can be divided between transfer earnings and economic rent. [10]

Earnings as reward to work. Transfer earnings as minimum acceptable to worker in particular job; examples are likely to link to cash opportunity cost, but differences in non-monetary net advantages are relevant too. Economic rent as earnings above transfer earnings. Explanation of the division between the two can be numerical or diagrammatic. Time horizon is also relevant – there are differences between short – and long-run.

Level 3	For clear explanation of both concepts, and the division between them, with examples [NB need to incorporate relevance of non-monetary net adv. for more than 8]	7-10
Level 2	For understanding of the two concepts without focus on the division between them, or without examples to illustrate	4-6
Level 1	For knowledge/definitions only	1-3

- (b) Discuss the extent to which the concept of economic rent explains differences in earnings, for example between a head chef and a waiter/waitress. [15]

Earnings as determined by interplay of S and D factors. Explanation of factors underlying each: on S, training/qualifications, natural abilities, artificial barriers [eg trade unions], alternative employment opportunities [including non-monetary net advantages issues]; on D, physical productivity, demand/price for product, factor substitutability. Use of relevant diagrams for each category of occupation chosen, with explanation linked to S and D factors above. For example, economic rent is capable of being earned in short-run by both occupations, given demand variations, but less so by waitress in long-run; and transfer earnings also likely to be greater for chef. [Any two occupations can be used to exemplify, but they must illustrate the same major issues].

Level 4	For discussion focused on 'extent to which'. An answer should be restricted to a maximum of 12 if it fails to link 'extent to which' to its examples.	9-15
Level 3	For explanation of earnings difference linked to economic rent	6-8
Level 2	For valid S and D applications linked to chosen occupations	3-5
Level 1	For descriptive points on earnings differences only	1-2

- 3 (a) Explain how contestability in a market can lead to benefits for consumers. [10]

Features which differentiate different market structures – number of firms, homogeneity or otherwise of products, price makers or price takers, freedom or otherwise of entry and exit, extent of knowledge. Essence of contestability is linked to barriers to entry and/or exit ; examples; importance of potential as well as actual entry. Impact of contestability on market outcomes – price, output, efficiency, and so benefits for consumers; counter case, when lower contestability may lead to benefits to consumers [e.g. economies of scale].

Level 3	Clear explanation of both characteristics and of possible benefits for consumers.	7-10
Level 2	Some understanding of either characteristics or possible benefits	4-6
Level 1	Descriptive points only on market structures	1-3

(b) For a leisure market of your choice, discuss the extent to which it is contestable in terms of its characteristics and its consequences. [15]

Choice of leisure market – which may be one of the four named in the specification, but does not need to be. Application of market structures and especially contestability features to it – e.g. Can new firms enter? Is there easy exit? Is potential entry a serious issue? Consideration of consequences, for consumers and for firms themselves. Consideration of any relevant particular features of the chosen leisure industry – e.g. prevalence or otherwise of profit-maximising objectives.

Level 4	Discussion of both characteristics and consequences focused on 'extent to which' and applied to the chosen leisure market. Answers which fail to address both aspects should be restricted to a maximum of 12	9-15
Level 3	Explanation of some relevant consequences, linked to contestability	6-8
Level 2	Application of contestability characteristics to chosen market	3-5
Level 1	Descriptive points on the market only	1-2

4 (a) Using examples, explain what is meant by labour market failure. [10]

Definition of market failure in terms of non-achievement of economic outcomes which accord with optimum resource allocation. Explanation of this in context of labour market. Identification and explanation of reasons for labour market failure, with the explanations linked to the concept – examples are likely to include geographical and occupational immobility, minimum wage, discrimination, trade unions, information failure.

Level 3	For explanation of the concept, with examples linked explicitly to it [NB max. of 7 if labour market failure defined only in terms of assumptions]	7-10
Level 2	For application, using examples only	4-6
Level 1	For limited understanding only of labour market failure	1-3

(b) Discuss the view that the best way in which a government can respond to labour market failure is to provide large subsidies to firms which offer worthwhile training to their employees. [15]

Explanation of the policy of subsidising firms who provide worthwhile training, and of how it addresses problems caused by labour market failure. Explanation of other possible policies to achieve the same objective – examples might include government provision of training, policies to make geographical mobility easier, policies making more information available, policies restricting power of trade unions, removal of minimum wage legislation. Evaluation, both of the effectiveness of individual policies in achieving objectives, and also focused on 'best way'.

Level 4	For evaluative discussion, with focus on 'best way'. An answer which considers at least one other policy is required for more than 12	9-15
Level 3	For explanation of working of at least one relevant policy	6-8
Level 2	For application linked to policy of subsidising training	3-5
Level 1	For knowledge of relevant labour market failure only	1-2

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

14 – 19 Qualifications (General)

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

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