

Mark Scheme (Results) Summer 2008

GCE

GCE Economics (6355) Paper 01

6355 01 Mark Scheme Summer 2008

Question Number	Answer	Mark
1(a)	<p>Knowledge, Application and Analysis (KAA) 12 marks. Award four factors up to (3 marks) each.</p> <p>(1 mark) for identification of the factor, and (2 marks) for why the change causes employment levels or unemployment rates to rise.</p> <p>Award fewer factors more generously if very well developed.</p> <p>At least one factor must relate to why unemployment rate is rising. There is a CAP of 9/12 for a one sided answer.</p> <p>Factors might include:</p> <p>Employment level rising:</p> <ul style="list-style-type: none"> • The workforce is bigger • Economic growth • Immigration • Increased participation (older workers, pension problems, better health) <ul style="list-style-type: none"> • Increased participation ('long upward trend of female participation' Ext 1 line 29) • Highly flexible labour market Ext 1 line 10, meaning more scope for employment • Allow macro factors e.g. increased spending, rise in aggregate demand, multiplier <p>Unemployment rate rising:</p> <ul style="list-style-type: none"> • The workforce is bigger • Immigrants may displace people from jobs in the short run <ul style="list-style-type: none"> • Uncompetitive wages e.g. high unit wage costs relative to other countries, or an increasing NMW • Failure of education and skills training • Immobility of workers, geographically and occupationally • Depressed wages (Extract 1 line 10) mean that workers are reluctant to work • Allow macro factors e.g. high value of the pound 	

	<p>Evaluation (Ev) 8 marks. Award (4 x 2 marks) or (2 x 4 marks). Factors might include:</p> <ul style="list-style-type: none"> • Discussion of the difference between levels and rates e.g. apparent paradox that employment levels are rising but employment rates are falling, or apparent paradox that employment levels are rising but unemployment rates and levels are rising. • Unemployment rate is rising because the workforce is bigger <ul style="list-style-type: none"> • Trend of female participations is now declining (Extract 1 lines 28-29) • The education argument is not sufficient (Extract 1 lines 21-22) - e.g. the 24-35 year group are likely to be lacking skills, not in education • Data range too narrow e.g. Extract 1 line 1 refers only to the last two years • Inaccurate data e.g. questioning whether the LFS is the most useful measure of unemployment 	<p>(20)</p>
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Question Number	Answer	Mark
1(b)	<p>Knowledge, Application and Analysis (KAA) 9 marks.</p> <p>Diagram or equivalent verbal analysis (2 marks) Award one marks for the correct shift, and 1 mark for the changes in wages and employment</p> <p>Award three factors, or two if well developed. Factors might include:</p> <ul style="list-style-type: none"> • Wages decrease: Increased labour supply. Wages fall and employment rises. • Increased skills (e.g. higher MRP) in labour market or other changes to the supply of labour besides price/wage • Lower inflation makes the country more competitive internationally • Increase in aggregate demand therefore job opportunities rise • Boosted economic growth by 1% since 2004 (Extract 2 line 1) • More flexible labour market e.g. immigrants have filled jobs that could not be filled • Some people displaced from jobs (increased unemployment as British workers reluctant to take jobs at lower wages) • Housing impact - upward pressure on prices, relaxed building regulations • Increased government spending of social services e.g. schools and housing • Social impact allowed where linked specifically to an economic factor such as living standards • Allow wider macro implications e.g. improved balance of payments, fiscal benefits <p>Evaluation (Ev) 6 marks. Award (3 x 2 marks) or (2 x 3 marks). Factors might include:</p> <ul style="list-style-type: none"> • People are starting to leave as other countries open their labour markets (Extract 2 lines 4-5) • Some of the increased incomes might be transfer payments abroad - accept macro arguments e.g. the multiplier effect is dampened owing to increased leakages • Depends on the skill levels of the immigrants. If very low skilled then there may be no overall effect, as displacement is more likely • Hard to measure changes, e.g. loss of skills might occur in the long term if British workers drop out of the workforce 	

	<ul style="list-style-type: none">• Immigration often has positive effects on living standards of those already in Britain e.g. an improving fiscal position	(15)
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Question Number	Answer	Mark
1(c)	<p>Knowledge, Application and Analysis (KAA) 6 marks. Award two factors (one must be for each category, 3 marks each). Factors might include:</p> <p>Beyond normal retirement age:</p> <ul style="list-style-type: none"> • for pensioners on income support or other means-tested benefits e.g. pension credits, there is less government spending (do not accept 'no need to pay pensions') • increased tax revenues e.g. income tax, NICs, VAT, depending on level of income <p>Working age women:</p> <ul style="list-style-type: none"> • for working age women leaving the workforce, more expenditure on benefits and/or less expenditure on government funded childcare. Do not award reference to JSA payments increasing. • for working age women joining the workforce, less expenditure on benefits and/or more expenditure on government funded childcare Do not award reference to JSA payments decreasing. • decreased tax revenues from women leaving the workforce • increased tax revenues from women joining the workforce <p>Evaluation (Ev) 4 marks. Award (2 x 2 marks or 1 x 4 marks). Factors might include:</p> <ul style="list-style-type: none"> • Benefits/costs of using older workers (e.g. experience and expertise vs. e.g. flexibility or IT literacy) • Discussion of magnitude of changes - more than half of the increase is from post retirement age (Extract 1 line 18) • Balance between the two groups -the increase in one group might outweigh the other • Retirement ages are changing anyway 	(10)

Question Number	Answer	Mark
1(d)	<p>Knowledge, Application and Analysis (KAA) 9 marks. Award three factors.</p> <p>At least one factor must relate to lone parents and at least one factor must relate to incapacity claimants. There is a CAP of 6/9 for a one sided answer.</p> <p>Factors might include:</p> <ul style="list-style-type: none"> • Reduce level of incapacity benefits/lone parents benefits • Make it harder to claim - e.g. via doctors having caps to the number of people that can be signed off in any period • Shorten the age until which lone parents can claim benefits (from age 12 in 2008) • 'Pathways to work' 2003 government initiated to help people back to work (interview with trained adviser, drawing up a plan to return to work) • Government as an employer - might use a more sensitive employment policy • Allow New Deal if specifically related to increasing participation • Allow an increase in NMW if specifically related to increasing participation • Increasing working tax credits if specifically related to increasing participation • Increase child benefits if specifically related to increasing participation • More crèche facilities if specifically related to increasing participation • Changes in marginal tax rates if specifically related to increasing participation • Tougher application of equal pay/anti-discriminatory practices <p>Evaluation (Ev) 6 marks. Award (3 x 2 marks) or (2 x 3 marks). Factors might include:</p> <ul style="list-style-type: none"> • The policies might not work - e.g. conflict with each other or time lag • Other problems might arise, e.g. poverty • Difficult to distinguish the half of the capacity claimants are not genuinely unable to work • Lone parent benefit age has already been lowered to 12 in 2008. 	

	<ul style="list-style-type: none">• Other problems might arise, e.g. child poverty if benefits are cut• Sense of fairness? Some sense of widening income distribution in short run.	(15)
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Question Number	Answer	Mark
2(a)	<p>Knowledge, Application and Analysis (KAA) 9 marks. Award three factors. Factors might include:</p> <p>Demand factors</p> <ul style="list-style-type: none"> • Service vs. manufacturing sectors regionally based • MRP theory • Regional structural issues e.g. North/South divide • More economic activity focused on London • Agriculture has been a low wage industry, and focused outside London (this could to some extent be extended to manufacturing) • London and South East the gateway to trade with Europe - increased demand pressure • Government, a major employer, still very focused in London • Degree of monopsony in regions <p>Supply factors</p> <ul style="list-style-type: none"> • Constraints on housing • Cost of living higher in South - must relate costs to wage pressures • Transport/commuting costs • Influence of trade unions varies according region/industry • Flexibility of workforce • Mobility of workforce • More welfare dependency in North (Extract 2 line 1-2) • Skills/education regional differences <p>Evaluation (Ev) (three factors up to (2 marks) each)</p> <ul style="list-style-type: none"> • Changes are afoot, e.g. more government departments moving out from the South East/London • Exports to Europe are mainly services, and do not need to be located in the higher cost South East/London • Elasticity arguments - e.g. that over time the wage differentials are likely to reduce as people respond to wage opportunities • National Minimum Wage may be reducing wage differentials, certainly at the lower end • Government policies to increase labour mobility, e.g. subsidised housing costs • Size of the regional multiplier 	(15)

	<ul style="list-style-type: none">• Unreliable data - does not show regional cost of living or illegal workers <p>Do not allow answers based on non-wage incomes</p>	
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Question Number	Answer	Mark
2(b)	<p>Knowledge, Application and Analysis (KAA) 12 marks.</p> <p>At least one factor must relate to why a regional minimum wage would be an improvement. There is a CAP of 9/12 for a one sided answer.</p> <p>Diagram or equivalent verbal analysis (2 marks) Award one marks for the correct shift, and 1 mark for the changes in wages and employment</p> <p>Award four factors. Factors might include:</p> <p>Weaknesses of the NMW</p> <ul style="list-style-type: none"> • Poverty in London and other Southern areas (diagram showing NMW below equilibrium might be used) is not alleviated (main aim of NMW) • NMW does not help people who are unemployed - it may lead to unemployment in northern areas (may be supported by diagram showing NMW above equilibrium) • High rate of NMW can make firms uncompetitive and the jobs will be lost altogether • Incentives may be destroyed if wage differentials are narrow • Increased rigidity in the labour market <p>Positive aspects of RMW</p> <ul style="list-style-type: none"> • Reflects regional living costs • Reflects other regional differences • Could attract FDI or other investment if wages are lower, so employment increases in areas where this a problem • Reduces the need for high government spending in northern parts of Britain (Extract 2 line 3-5) • Market signals become more effective - reduced market failure, increased flexibility 	

	<p>Evaluation (Ev) 8 marks. Award (4 x 2 marks or 2 x 4 marks). Factors might include:</p> <ul style="list-style-type: none"> • Very difficult to set a regional minimum wage at the right levels for each region • NMW is cheaper than an RMW to enforce • Mobility issues e.g. even if wages are different it might be very difficult for workers to move • Spillage between regions • Elasticity arguments - degree of response • Low Pay Commission states that NMW does not have a discernable effect on employment (LPC report 2001). • RMW widens income inequalities, or increase poverty/NMW narrows income inequalities • Income support provisions render RMW manipulation of wages unnecessary • Better to have no minimum wage at all? 	<p>(20)</p>
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Question Number	Answer	Mark
2(c)	<p>Knowledge, Application and Analysis (KAA) 9 marks. Award three factors or two factors and a diagram. Factors might include:</p> <ul style="list-style-type: none"> • Monopsony explanation: diagram can earn 3 marks counts as a factor. This may include a helpful definition, description of depressed wages and reduced employment. • Regional differences will be exacerbated • Localised spillage across regional boundaries as regional wages start to differ • Monopsony power increased in local market (or the reverse if public sector monopsony power is reduced in some areas) • Buyer power implies that the wages will be depressed in some regions and increased in some others • Local trade union power will try to keep wages up in areas where government expenditure would otherwise decrease i.e. collective bargaining • More flexibility in wage negotiations, e.g. easier to recruit teachers when wages are raised • Macro effects of income redistribution - e.g. changing spending propensities of income groups <p>Evaluation (Ev) 6 marks. Award (3 x 2 marks) or (2 x 3 marks). Factors might include:</p> <ul style="list-style-type: none"> • bilateral monopoly analysis • decisions will vary across regions and over time - hard to say what will happen • trade union power is not generally focused regionally, and is declining in some areas and rising in others • possible widening of income inequality - this may be illustrated through a shift in the Lorenz curve • depends on the elasticity of the labour supply and demand 	(15)

Question Number	Answer	Mark
2(d)	<p>Knowledge, Application and Analysis (KAA) 6 marks. Award two factors, up to three marks each. Factors might include:</p> <ul style="list-style-type: none"> • Constant marginal rate of tax cuts act as an incentive - with specific reference to higher earners AND/OR constant marginal rate of tax cuts act as an disincentive - with specific reference to lower earners • Uncomplicated system will make it easier for people taking on work and coming off benefits • No 'step up' to higher tax bands to prevent people from working harder, so removes employment traps <p>Evaluation (Ev) 4 marks. Award (up to 2 x 2 marks or 1 x 4 marks). Factors might include:</p> <ul style="list-style-type: none"> • Depends on the rate that was chosen will determine the effect on incentives • Job seekers' incentives involve far more than the marginal tax rate • Need to have steps in place to ensure there is not an employment trap/poverty trap • Sense of fairness - widening income inequality, which might be shown with a shift in the Lorenz curve. • Use of evidence from other countries. Successes and failures of countries that are already operating the flat rate tax e.g. Baltic countries Estonia, Latvia and Lithuania have had flat rate taxes of 24%, 25% and 33% respectively since the mid 1990s • Short run effects different from long run - depends on elasticities e.g. might change the shape of the backward bending supply curve 	(10)

6355/01 Evaluation Grid

	Knowledge, Application and Analysis	Evaluation	Total
Question 1			
A	12	8	20
B	9	6	15
C	6	4	10
D	9	6	15
Question 2			
A	9	6	15
B	12	8	20
C	9	6	15
D	6	4	10
Total	12	40	60

