1.32 Transfer Earnings and Economic Rent in Factor Markets: Test Pack

Total Marks

AQA 7136 · Calculators not allowed · about 15 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Short answers may be brief phrases; the final 12-mark question requires full sentences. No calculator is needed.

1 Multiple choice: In the context of a labour market for a particular job in the UK city of Bristol, which definition best describes transfer earnings?

- ☐ A: The total wage paid to all workers in an industry over a year.
- ☐ B: The minimum payment needed to keep a factor of production in its current use.
- ☐ C: Any payment to a worker above the market equilibrium wage.
- ☐ D: Government transfers such as unemployment benefit.

(Total for Question 1 is 1 mark)

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2 Explain briefly how government licensing or professional regulation in the UK can create economic rent for a profession, giving one concise example.

(Total for Question 2 is 3 marks)

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3 Define 'economic rent' as it applies to the earnings of an individual worker in a UK occupation, naming the context of scarce skills.

(Total for Question 3 is 2 marks)

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4 Explain, in the context of the British labour market for specialist neurosurgeons, how the elasticity of supply of labour affects the split between transfer earnings and economic rent for those surgeons.

(Total for Question 4 is 3 marks)

5 State the identity that relates total earnings, transfer earnings and economic rent for an individual worker in a UK labour market, and give a brief explanation.

(Total for Question 5 is 2 marks)

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Mark scheme · 1.32 Transfer Earnings and Economic Rent in Factor Markets: Test Pack

Question 1

one mark for selecting option B, the minimum payment required to keep the factor in its current use — **B1**

Answer: B

Question 2

states that licensing/regulation restricts entry, reducing effective supply — **M1**

explains that restricted supply raises equilibrium wages above transfer earnings for those in the profession — **A1**

gives an example, e.g. strict medical licensing raising doctors wages above what would prevail under open entry — **A1**

Answer: Licensing restricts entry and reduces supply, pushing wages above reservation levels; for example, strict medical licensing helps sustain economic rent for doctors.

Question 3

a payment to a factor of production that exceeds the minimum required to keep it in its current use, ie above transfer earnings — **B1**

applies when a worker has scarce or unique skills so they receive earnings over their reservation wage — **B1**

Answer: Economic rent is the payment above the minimum needed to keep a worker in their current job, often arising when the worker has scarce skills.

Question 4

identify that supply of specialist neurosurgeons is very inelastic in the short to medium run because training is long and few people qualify — **M1**

explain that with inelastic supply a rise in demand or a high market wage mostly increases economic rent, since transfer earnings are close to the surgeon's high reservation wage and supply cannot increase much — **A1**

conclude that most of the surgeon's high wage represents economic rent rather than transfer earnings due to supply inelasticity — **A1**

Answer: Inelastic supply for neurosurgeons means wages above reservation levels mostly become economic rent, because training limits supply increases so earnings above the minimum are not competed away.

Question 5

states identity: total earnings = transfer earnings + economic rent — **B1**

brief explanation: total pay is split into the minimum required and any surplus above that minimum — **B1**

Answer: Total earnings = transfer earnings + economic rent; the wage is split into the minimum to retain the worker and any surplus above that minimum.

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