# ECO.MIC30 Transfer Earnings and Economic Rent in Factor Markets

AQA 7136 · Calculators not allowed · about 60 minutes

Total Marks

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** 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 2 is 2 marks)**

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**3** Define 'transfer earnings' for a UK worker, and give one brief example of a transfer earning in a particular occupation.

**(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)**

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**5** Explain why a low-skilled, easily trained occupation in a UK city, such as entry-level retail assistants, tends to have most of its payment classified as transfer earnings rather than economic rent.

**(Total for Question 5 is 3 marks)**

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**6** 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 6 is 2 marks)**

**7** Calculation: In a specialist UK consultancy a highly trained analyst requires at least GBP 28,000 per year to remain in the job (their reservation wage). The market pays GBP 72,000. Calculate the analyst's economic rent per year and state the units.

**(Total for Question 7 is 4 marks)**

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**8** Diagram labelling and shading: On the axes label wage (vertical) and quantity of labour (horizontal). Draw an upward-sloping labour supply curve S and a downward-sloping labour demand curve D that intersect at equilibrium wage We and quantity of labour Qe. On your diagram, shade the area representing transfer earnings and shade the area representing economic rent for the workers employed up to Qe. The market is a competitive labour market in London for a scarce craft.

> ***Figure (to be drawn):*** *Students should draw vertical axis labelled Wage, horizontal axis labelled Quantity of labour. Upward-sloping S, downward-sloping D intersect at We and Qe. Shade area under S from origin to Qe up to the level of the reservation wage curve if drawn, or interpret transfer earnings as area under the supply curve up to We; shade economic rent as the triangular area between We and the supply curve above it up to Qe.*

**(Total for Question 8 is 6 marks)**

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**9** Explain briefly what happens to economic rent for a group of workers if a sudden large number of equally qualified substitutes enter the UK labour market for their occupation.

**(Total for Question 9 is 3 marks)**

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**10** State two labour-market factors, other than supply elasticity, that increase the likelihood of a worker receiving significant economic rent in the UK.

**(Total for Question 10 is 2 marks)**

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**11** 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 11 is 3 marks)**

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**12** Short explanation: Why does geographical immobility of labour tend to raise economic rent for workers whose skills are in demand in one UK region but not in others?

**(Total for Question 12 is 2 marks)**

**13** Analyse why consultant orthopaedic surgeons in a large UK city might earn a large amount of economic rent compared with general hospital porters. Use diagrams and make a reasoned judgement.

Analyse why consultant orthopaedic surgeons in a large UK city might earn a large amount of economic rent compared with general hospital porters. Your answer should include a diagram showing supply and demand for surgeons, explanation of factors affecting transfer earnings and economic rent, consideration of counterarguments and a supported judgement.

**(Total for Question 13 is 12 marks)**

# Mark scheme · ECO.MIC30 Transfer Earnings and Economic Rent in Factor Markets

### Question 1

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

### Question 2

- **B1** 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
- **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 3

- **B1** transfer earnings are the minimum payment necessary to keep a factor, such as a worker, in its current employment
- **B1** example: the minimum annual salary a newly qualified primary school teacher would accept to remain teaching rather than switching to another job
- **Answer: Transfer earnings are the minimum payment needed to keep a worker in a job. Example: the lowest acceptable salary for a newly qualified teacher to remain in teaching.**

### Question 4

- **M1** identify that supply of specialist neurosurgeons is very inelastic in the short to medium run because training is long and few people qualify
- **A1** 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
- **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

- **M1** state that supply of low-skilled retail labour is relatively elastic because workers can be trained quickly and many workers are available
- **A1** explain that when supply is elastic, any above-minimum wage is competed away by new entrants, so wages mostly reflect transfer earnings
- **A1** link to example: firms facing a slightly higher wage attract more applicants, reducing the scope for sustained economic rent
- **Answer: Elastic supply of low-skilled retail workers means wages are driven toward the minimum needed to keep people in the job, so payments are mainly transfer earnings.**

### Question 6

- **B1** 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
- **Answer: Total earnings = transfer earnings + economic rent; the wage is split into the minimum to retain the worker and any surplus above that minimum.**

### Question 7

- **M1** method: economic rent = market wage - transfer earnings (reservation wage)
- **A1** calculation shown: 72,000 - 28,000
- **A1** answer: GBP 44,000
- **B1** unit stated: GBP per year
- **Answer: Economic rent = GBP 44,000 per year.**

### Question 8

- **B1** correctly labels vertical axis 'Wage' or equivalent
- **B1** correctly labels horizontal axis 'Quantity of labour' or equivalent
- **B1** correctly draws and labels supply curve 'S'
- **B1** correctly draws and labels demand curve 'D' and equilibrium 'We' at intersection
- **B1** correctly shades transfer earnings area as the area under the supply curve up to Qe or equivalent depiction
- **B1** correctly shades economic rent as the area between the equilibrium wage We and the supply curve above it up to Qe
- **Answer: Diagram with axes labelled, S and D drawn to intersect at We and Qe; transfer earnings shaded below the supply curve up to Qe; economic rent shaded between We and the supply curve above it to Qe.**

### Question 9

- **M1** identify that supply becomes more elastic or shifts right with many substitutes entering
- **A1** explain that increased supply reduces the market wage toward the reservation wage for many workers
- **A1** conclude that economic rent falls, perhaps to near zero for marginal workers, as wages are competed down
- **Answer: With many substitutes supply becomes more elastic and wages fall toward reservation levels, so economic rent is reduced or eliminated for many workers.**

### Question 10

- **B1** factor 1: genuine scarcity of the skill or high barriers to entry such as long training requirements
- **B1** factor 2: uniqueness or non-transferability of the worker's skills to other jobs or locations
- **Answer: Examples: scarce skills/long training requirements, and skills that are unique or not easily transferable to other jobs.**

### Question 11

- **M1** states that licensing/regulation restricts entry, reducing effective supply
- **A1** 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
- **Answer: Licensing restricts entry and reduces supply, pushing wages above reservation levels; for example, strict medical licensing helps sustain economic rent for doctors.**

### Question 12

- **B1** states that immobility prevents workers from moving to equalise wages across regions
- **B1** explains that restricted movement keeps supply low in the high-demand region, increasing the local economic rent
- **Answer: Because immobility prevents labour moving to reduce local shortages, supply stays low where demand is high and wages there include higher economic rent.**

## Question 13

- **Level 1** (1-4): Basic identification of relevant concepts with limited development. May draw an undeveloped diagram or state that surgeons earn more due to training. Limited linkage between supply elasticity, scarcity and rent, and little or no evaluation or judgement.
- **Level 2** (5-8): Clear explanation of how inelastic supply, long training, licensing and high demand for specialist skills create a large economic rent for surgeons. Includes a correctly labelled supply and demand diagram showing a high wage and shaded rent. Some analysis of transfer earnings versus rent and at least one evaluative point such as time lags or substitutes reducing rent, but judgement may be only partially supported.
- **Level 3** (9-12): Comprehensive analysis with a well-labelled diagram and correct shading of transfer earnings and economic rent. Develops multiple reasons: long training and licensing, unique skills, geographic agglomeration, high willingness to pay by hospitals/private sector, and market power in specialist posts. Considers counterarguments including public sector pay caps, bargaining, and potential supply expansion over the long run, and discusses magnitude, time horizon and distributional effects. Ends with a supported judgement on why surgeons earn substantial economic rent relative to porters.
- **Indicative content:**
  - diagram: upward-sloping supply for surgeons (inelastic in short run) and downward-sloping demand intersecting at high We; transfer earnings shown as area under supply up to a lower reservation level, economic rent as area between We and supply above it to Qe
  - supply-side reasons: long and costly training, professional licensing, limited training places, credentialing and certification creating high barriers to entry
  - demand-side reasons: high willingness to pay by hospitals and private clinics for specialist skills, ageing population increasing demand for orthopaedic services, ability to generate revenue via private practice
  - inelastic short-run supply means wage rises largely translate into economic rent rather than increased quantity supplied
  - transfer earnings for surgeons are still high due to opportunity costs and long training, but the surplus above that minimum is large because of scarcity and high demand
  - counterarguments: public pay bargaining and national contracts can limit wages, training expansion and international recruitment could increase supply and reduce rent over time, and some pay reflects compensating differentials for long hours and risk rather than pure scarcity
  - distributional and efficiency considerations: economic rent accrues to the worker and may not increase social welfare; policies to tax or capture rent, or to expand training capacity, can alter the split between transfer earnings and rent
  - conclude with a reasoned judgement on balance, noting the importance of time horizon and institutional constraints