1.11 Wage Determination and the Labour Market: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for questions worth 4 marks or more. Label any diagrams clearly and show your working for calculations. Time guidance: 10 minutes.

1 Elasticity of labour demand. A local employer finds that when the hourly wage for gardeners rises from £9 to £10, the quantity of labour demanded falls from 120 hours per week to 108 hours per week. Calculate the wage elasticity of labour demand using the midpoint method and state whether demand is elastic or inelastic.

(Total for Question 1 is 4 marks)

2 Define marginal revenue product (MRP) of labour for a firm selling in a competitive product market, context: a UK bakery hiring bakers.

(Total for Question 2 is 2 marks)

3 Explain two determinants of the supply of labour to the occupation of junior nurses in the UK, excluding wage level. Context: NHS junior nursing posts.

(Total for Question 3 is 2 marks)

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Mark scheme · 1.11 Wage Determination and the Labour Market: 10-minute Pack

Question 1

calculate percentage change in quantity demanded: (108 - 120) / ((108 + 120)/2) x 100 = -12 / 114 x 100 = -10.526...%, awrt -10.53%	**M1**
calculate percentage change in wage: (10 - 9) / ((10 + 9)/2) x 100 = 1 / 9.5 x 100 = 10.526...%, awrt 10.53%	**M1**
elasticity = % change in Q / % change in wage = -10.53% / 10.53% = -1.0, so elasticity magnitude 1.0	**A1**
conclusion: demand is unit elastic in magnitude, so neither elastic nor inelastic conventionally; state as unit elastic	**B1**

Answer: Using midpoint method: %Q = -10.53%, %W = 10.53%, elasticity = -1.0. Demand is unit elastic (magnitude 1.0).

Question 2

MRP of labour = marginal physical product of labour (MPL) multiplied by marginal revenue (MR), showing the extra revenue from hiring one more worker	**B1**
for a firm in a competitive product market, MR equals price, so MRP = MPL x price, expressed in money per additional worker	**B1**

Answer: MRP = MPL x MR; in a competitive product market MR equals price, so MRP = MPL x price, the extra revenue from one more worker.

Question 3

identifies one determinant and explains it, e.g. training places and qualifications: more funded training increases supply to the occupation	**B1**
identifies a second determinant and explains it, e.g. non-wage aspects such as shift patterns or working conditions: better conditions increase willingness to supply labour to nursing	**B1**

Answer: E.g. an increase in funded training places raises the supply of qualified junior nurses; improved working conditions or more flexible shifts increase the willingness of trained nurses to work those posts, raising occupational supply.

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