1.11 Wage Determination and the Labour Market: 30-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 30 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: 30 minutes.

1 Calculate the marginal revenue product (MRP) of an additional worker at a British small manufacturer. Given the extra worker increases output by 8 units per day and the firm sells each unit at £12 in a competitive product market.

(Total for Question 1 is 4 marks)

2 State and briefly explain what happens to the quantity of labour demanded in a competitive labour market if the market wage rises from £10 to £12 per hour, other factors constant, for a fast-food outlet in London.

(Total for Question 2 is 2 marks)

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3 A monopsony employer in a small rural town hires delivery drivers. Explain, with a diagram described in words, how introducing a minimum wage set above the monopsony wage but below the competitive marginal revenue product wage can affect employment and wages. State what must be drawn and the expected result.

(Total for Question 3 is 6 marks)

4 State two ways a trade union can influence wages and employment in a specific industry, context: a railway workers union negotiating with a regional operator.

(Total for Question 4 is 4 marks)

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Mark scheme · 1.11 Wage Determination and the Labour Market: 30-minute Pack

Question 1

identify MRP = MPL x price = 8 x £12	**M1**
MRP = £96 per day	**A1**
state the unit and interpretation: £96 is the extra revenue earned per additional worker per day	**M1**
clear final answer with units, awrt £96 per day	**A1**

Answer: MRP = 8 x 12 = £96 per day, the extra revenue from hiring the additional worker.

Question 2

states that quantity of labour demanded falls when wage rises, since firms face a higher cost of hiring	**B1**
brief explanation: at higher wage some previously profitable hirings have MRP < wage, so firms reduce employment	**B1**

Answer: Employment falls: a rise in wage from £10 to £12 raises the cost of labour so the fast-food outlet reduces the number of workers employed because some workers' MRP is now less than the wage.

Question 3

diagram description: upward-sloping labour supply S, monopsonist marginal expenditure curve ME lying above S, and labour demand (MRP) curve downward-sloping	**B1**
shows monopsony equilibrium where ME intersects demand at employment Lm and wage Wm read from supply at that employment	**B1**
shows a horizontal minimum wage line set above Wm but below the competitive wage where demand equals supply; marks new employment Lmw where demand intersects the minimum wage	**B1**
explains that under monopsony a modest minimum wage can raise both wages and employment because it prevents employer setting wage below marginal revenue product	**B1**
states expected result: wage rises to the minimum level and employment increases from Lm to Lmw, up to the point where MRP equals the mandated wage	**B1**
acknowledges boundary: if minimum wage is set too high above MRP it can reduce employment, so placement matters	**B1**

Answer: Diagram: supply S, ME above it, demand MRP downward. Monopsony chooses Lm at ME=MRP paying Wm from S. Minimum wage horizontal above Wm shifts outcome to higher wage and higher employment Lmw where wage intersects demand, because employer can now hire more at mandated wage. If set too high, employment may fall.

Question 4

identifies one method, e.g. collective bargaining to negotiate higher wages, and explains effect on wage level	**B1**
explains possible employment effect, e.g. higher negotiated wages may reduce employment if operator faces higher labour costs and reduces hiring or uses more automation	**B1**
identifies second method, e.g. organising strikes or threats of industrial action to increase bargaining power	**B1**
explains effect, e.g. strikes can raise wages or force employer concessions but may reduce short-run output and could harm long-run employment prospects if firm loses revenue or market share	**B1**

Answer: E.g. the union uses collective bargaining to secure higher wages, which raises wage levels but may reduce employment if the operator cuts staff; the union may use strikes to increase bargaining power, which can win concessions but reduce short-term output and risk longer-term job losses if the operator is weakened.

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