1.11 Wage Determination and the Labour Market: Test Pack

Total Marks

AQA 7136 · Calculators not allowed · about 25 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: 25 minutes.

1 Multiple choice, the basic idea of derived demand for labour in a firm producing widgets in the UK. Context: a small workshop in Manchester producing wooden toys.

- ☐ Labour is demanded directly because workers want wages
- ☐ Labour demand is derived from the demand for the goods the workers produce
- ☐ Firms supply labour to the market, so labour demand is fixed
- ☐ Labour demand equals the marginal cost of labour in all markets

(Total for Question 1 is 1 mark)

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2 Explain how the introduction of a modest National Minimum Wage that is set slightly above the existing market wage in a competitive local labour market could both reduce poverty for some workers while not causing unemployment to rise in the short run. Context: low-paid retail workers in a town.

(Total for Question 2 is 6 marks)

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3 Explain two determinants of the demand for labour for a restaurant chain operating in Britain, excluding the wage level. Name the chain context in your answer.

(Total for Question 3 is 2 marks)

4 Draw a competitive labour market diagram for baristas in a city cafe chain, showing labour supply and labour demand curves, an initial equilibrium wage and employment, then a rightward shift in labour demand due to a rise in demand for speciality coffee. Describe what must be drawn and state the resulting wage and employment change.

(Total for Question 4 is 6 marks)

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Mark scheme · 1.11 Wage Determination and the Labour Market: Test Pack

Question 1

correct option B, recognising labour demand is derived from product demand **B1**

Answer: Labour demand is derived from the demand for the goods the workers produce

Question 2

states that a modest minimum wage increases pay for those at bottom of distribution, directly raising incomes for low-paid workers **M1**

explains that if minimum wage is only slightly above market wage, the increase in employers' labour costs may be small, and firms may absorb costs via lower profits, higher prices or productivity improvements rather than cutting employment immediately **M1**

states that increased wages can raise worker morale and reduce turnover, which saves hiring and training costs, offsetting some increased wage bill **M1**

develops that if labour demand is relatively inelastic in short run, employment response is small, so unemployment may not rise **A1**

acknowledges potential short-run trade-off: some firms may reduce hours or staff if wage rise is significant relative to productivity **M1**

concludes that a modestly set minimum wage can raise incomes without necessarily causing higher unemployment in short run, but effects depend on size of increase and firm/sector characteristics **A1**

Answer: A modest minimum wage lifts pay for low-paid retail workers and can be absorbed without large job losses if firms adjust profits, prices or productivity and if short-run labour demand is inelastic. However, larger hikes risk reduced hours or job cuts.

Question 3

identifies one determinant and explains it, e.g. changes in demand for the restaurant's meals: higher product demand raises MRP and labour demand **B1**

identifies a second determinant and explains it, e.g. productivity/technology: better ovens or training raise MPL so MRP rises, increasing labour demand **B1**

Answer: E.g. a rise in demand for the chain's meals increases its marginal revenue product so it hires more staff; improvements in technology or staff training raise workers' productivity (MPL), increasing MRP and labour demand.

Question 4

diagram with vertical axis labelled Wage and horizontal axis labelled Quantity of labour or Employment **B1**

initial downward-sloping labour demand curve D1 and upward-sloping labour supply curve S intersecting at E1 with wage W1 and employment L1 **B1**

a rightward shift of demand curve to D2 shown, with new intersection at E2 **B1**

new equilibrium labelled with higher wage W2 and higher employment L2 relative to W1 and L1 **B1**

short written explanation linking the rise in product demand to higher MRP and increased labour demand, causing wage and employment to rise **B1**

clear statement that wage rises from W1 to W2 and employment rises from L1 to L2 **B1**

Answer: Draw labelled axes, D1 and S cross at E1 (W1, L1). Shift demand right to D2, new equilibrium E2 with higher wage W2 and higher employment L2. Explanation: higher product demand raises MRP, shifting labour demand right, increasing wage and employment.

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