

Examiners Hints and Tips: Unit 4 – The Economics of Work and Leisure (Unit 2884)

Reports

- Aim to split the time proportionately between the case study and the essay; i.e. spend approximately 40 minutes on the case study and 50 minutes on the essay.
- Only attempt **one** essay question.
- When looking at the case study, be aware that the *written* material is as relevant as any data you are given and it often contains important assistance to you in answering the questions.
- Pay close attention to the directive words.
 - State and explain requires **both** stating and explaining.
 - Comment, Discuss and To what extent are the most commonly used terms for the evaluative questions: They all require two sided answers.
- The unit assumes knowledge covered in the AS units The Market System and Market Failure so look at the examiners tips sheets for these units to cover the theoretical content assumed.
- When doing the essay **always** define clearly any technical terms used in the question in your opening paragraph.
- **Learn and use** diagrams. Make sure you explain what they show in your text. **Don't** just draw them and then not mention them.
- Make sure you know both short run and long run diagrams for each market structure and can explain the transition between them and the link to efficiency in each case.
- The second half of the essay question is **always** looking for a two-sided discussion based on theory but clearly applied to the exam question.
- The discussion should **develop** a series of points and **not** just list them. A2 requires **evaluation** of the pros and cons.
- Often the essay will put forward an argument with the directive 'to what extent'; you should explain the argument proposed then come up with other, *alternative* arguments which you must explain. Finally you should conclude by answering the 'to what extent' element.
- If asked to 'discuss' various policy options you should consider *how effective* the policies you are proposing would be in achieving the objective (e.g. likely to succeed; may hamper other objectives etc.).
- If you can, challenge the questions contention; if you do this successfully you are guaranteed a high mark.

Content

- Labour productivity: Output per worker per time period. This can be increased by:
 - Better organisation of labour.
 - Increased capital per worker.
- Marginal Revenue Product = MPP x MR.
 - MPP is the productivity of workers in terms of output, and is affected by the law of diminishing returns in the short run.
 - $MR = P$ under perfect competition, $MR < P$ in other markets.
 - MRP is the demand curve for labour.
 - Wages are determined by both the demand (=MRP) for labour and the supply of labour (skills requires, net advantages).
 - Net advantages of an occupation include training and qualifications, natural abilities, trade unions and pay.

- Opportunity cost: Definition and application (e.g. in terms of time and/or money; wages are the opportunity cost of leisure).
- Substitution and Income effects and their application in the choice between work and leisure. It is the balance between the two effects for a worker which determines his/her response to a wage increase and may lead in particular circumstances to a backward sloping short-term supply curve.
- Reasons for...

Less leisure time in future	More leisure time in future
<ul style="list-style-type: none"> • Decline in the power of trade unions. • Economic globalisation pressures to work longer. • Introduction of new technology. 	<ul style="list-style-type: none"> • Increase in real incomes mean people substitute leisure for work.

- Possible ways to increase UK labour supply:
 - Change legislation (on relevant age and/or school leaving age).
 - Taxation incentives.
 - Encourage immigration/discourage emigration.
 - Increase *real* earnings (to make the opportunity cost of leisure greater).
- Reasons for labour market failure:
 - Lack of perfect competition (in product and/or labour markets).
 - Trade union activity.
 - Imperfect information.
 - Immobility.
 - Discrimination.
 - Monopsony.
- Consequences of labour market failures include:
 - Non-competing labour markets.
 - Persistent wage differentials.
 - Unemployment.
 - Inequality.
- Ways a government can minimise labour market failures:
 - Improve provision of appropriate information to decrease immobility and increase competition..
 - Laws to limit the powers of trade unions.
 - Policies to increase education/training/retraining.
 - Laws to outlaw discrimination.
 - Policies to increase geographical mobility.
- Labour mobility can be improved by government policies:
 - Geographical: improved information, housing, London allowances.
 - Occupational: training/re-training, improved information.
 - Normally you would have to **evaluate** how effective you think such policies would be (i.e. reasons why they might *not* work).
- Trade unions as a cause of labour market failure:
 - Wages are higher than the free market equilibrium and number of employed workers lower.
 - Trade unions restrict supply – ‘closed shop’ – to gain collective bargaining ability.
 - Industrial action:
 - Possible effect of trade industry activity.
 - Decreases the international competitiveness of the UK as trade unions increase wages so increase unit labour costs. It could be argued that higher wages may offset this by causing UK workers to be more productive and produce higher quality output.
- Vertical Integration.

- Market Structures: **Diagrams**, key criteria for each market structure (see AS tips revision sheets), how prices are determined in each structure, level of profits in the long run/short run in each structure, contestability in each structure, implications for consumers of the market structure (e.g. price, choice, quality, innovation), efficiency within the market structure (both productive and allocative).
- Contestability is linked to barriers to entry/exit. Link contestability to different market structures. The impact of contestability on market outputs (i.e. price, output, efficiency and benefits to consumers). *N.B.* Consumers can, in some circumstances, benefit from **less** contestability e.g. economies of scale.
- Minimum wage: Definition; its effect depends upon its level relative to the free market equilibrium in any occupation:
 - Effect on employment: depends upon the **elasticity of demand** for the labour (i.e. is there a substitute for labour – capital?).
 - Effect of minimum wage on poverty (know the difference between absolute and relative) versus other approaches to decrease poverty (progressive taxation, government payment of benefits, government provision of goods/services).
- Real means adjusted to take account of changes in the price level (i.e. inflation).
- Retraining: Reasons why this may not occur include:
 - The level of skill differences.
 - Non-monetary advantages.
 - Opportunity cost of retraining.
- Earnings: The reward for work: Determined by demand and supply forces.

Supply factors	Demand factors
<ul style="list-style-type: none"> • Abilities • Qualification • Artificial barriers (e.g. trade unions) • Alternative employment options (including non-monetary net advantage aspects). 	<ul style="list-style-type: none"> • Productivity. • Demand for and price of product. • Labour substitutability.

} =MRP

- Transfer earnings and economic rent
 - Earnings are the total reward for work.
 - Transfer earnings are the minimum acceptable reward to work in a particular job. Link this to:
 - Cash opportunity cost.
 - Non-monetary rewards (perks of a job).
 - Economic rent is the reward above transfer earnings.
 - Consider the short run/long run.
 - Learn the **diagram**.
 - Applications of economic rent to explain differences in earnings between workers; why some workers receive high wages in the long run i.e. barriers to entry mean supply is inelastic.
- The effectiveness of a trade union depends on:
 - Its size.
 - Its coverage (geographical and % of relevant workforce).
 - Willingness/ability to take industrial action.
- How workers can increase earnings:
 - Via trade union actions to combat power of monopoly employers.
 - If there is an increased demand for those workers.
 - Decrease attractiveness of non-monetary advantages.
 - Move job/region.
- Difference between *direct* (on income, wealth and profits) and *indirect* taxes (on spending), *progressive/regressive* and their effect on income distribution.

Progressive taxes as a means of reducing inequality, weaknesses in this argument include disincentive problems and avoidance problems.

- Net advantages: The combination of pay and pecuniary (and non-pecuniary) advantages and disadvantages, e.g. low status, unsocial hours.
 - In a free market, the long run equalisation process means labour moves from low to higher net advantage occupations.
- Causes of inequality in the UK (both income and wealth):
 - Abilities and qualifications.
 - Labour market power
 - Hours worked
 - Discrimination
 - Age
 - Household factors
 - Unemployment and benefits system
 - Taxation system
 - Property ownership
 - Inheritance (wealth only)
- Policies to reduce inequality could include:
 - Tax and benefits system
 - Employment opportunities
 - Minimum wage
 - Education policies