



Economics Questions By Topic:

Labour Market (3.5)

A-Level Edexcel Theme 3

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2 In September 2013, clothing workers in Bangladesh demanded an increase in the industry minimum wage from \$38 to \$100 a month. Such an increase in the minimum wage is likely to

(1)

- A affect the level of employment among clothing workers
- B decrease the supply of labour in the clothing industry
- C increase the demand for labour in the clothing industry
- D decrease the price of clothing in shops

Answer

Explanation

You may use a supply and demand diagram in your answer.

(3)

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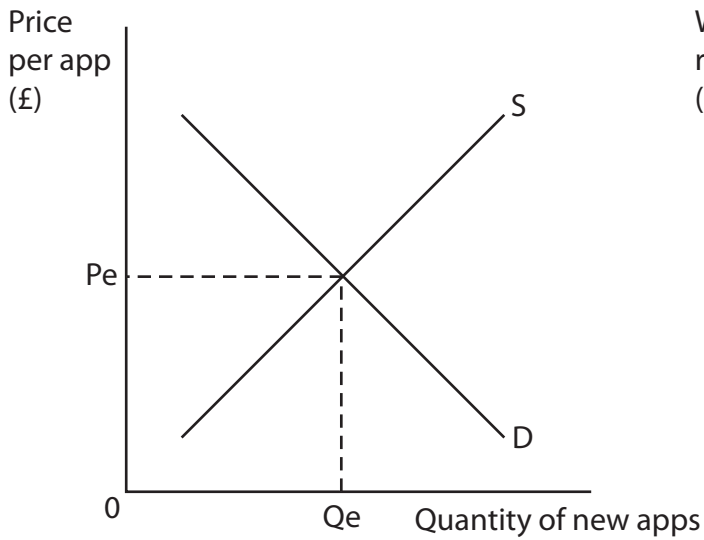
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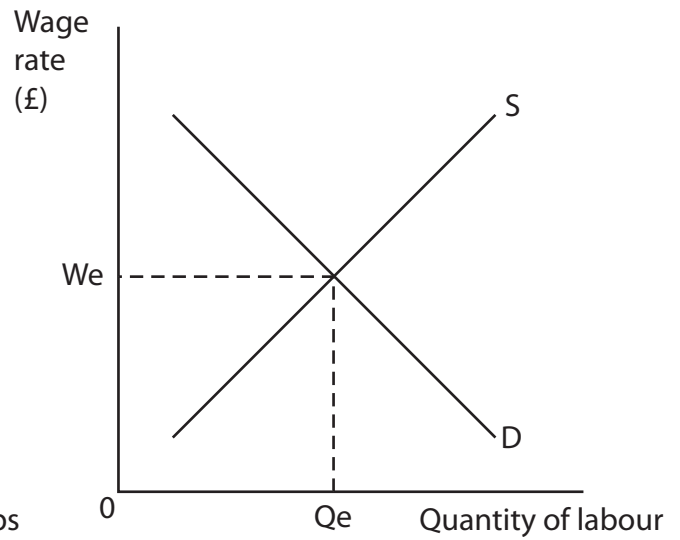
(Total for Question 2 = 4 marks)

3

Market for new applications (apps)



Labour market for application (app) programmers



The diagrams show the market for new apps (software used on mobile phones and tablet computers) and the labour market for app programmers.

Other things being equal, an increase in the demand for new apps is most likely to (1)

- A affect the wage rate of app programmers
- B decrease the demand for app programmers and mobile phones
- C decrease the supply of app programmers
- D decrease the total revenue of tablet computer manufacturers

Answer

Explanation

(3)

A series of horizontal dotted lines for writing an explanation.

(Total for Question 3 = 4 marks)

4 Which of the following is **most** likely to increase the **geographical** mobility of labour in the UK?

(1)

- A An increase in the average age of the workforce.
- B An increase in rail and bus fares.
- C A decrease in regional house price differentials.
- D A decrease in the proportion of skilled workers in the labour force.

Answer

Explanation

(3)

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(Total for Question 4 = 4 marks)

6 Which of the following is most likely to **reduce** the geographical mobility of labour? (1)

- A An improvement in the skill level of the workforce
- B A shortage of affordable housing across the UK
- C Relocation grants for key workers
- D A reduction in petrol prices.

Answer

Explanation

(3)

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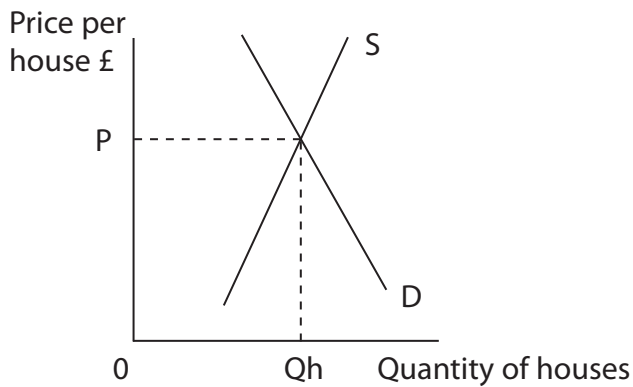
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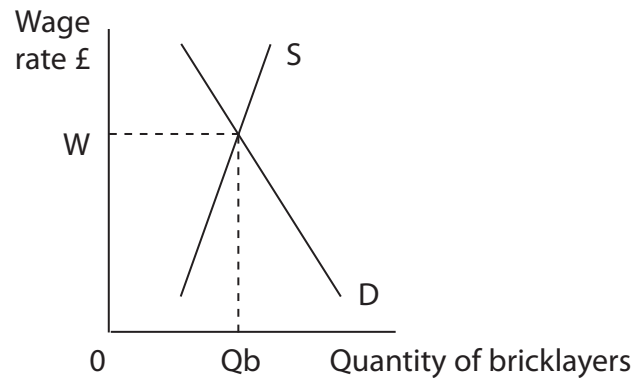
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(Total for Question 6 = 4 marks)

7 Market for newly-built housing



Labour market for bricklayers



The diagrams show the market for newly-built housing and the labour market for bricklayers. New housing is a normal good. The initial price of housing is OP and the initial wage rate for bricklayers is OW . (You may annotate the diagrams in answering the question.)

A decrease in real incomes is likely to cause

(1)

- A** an increase in the price of new housing and an increase in the wage rate for bricklayers
- B** a decrease in the price of new housing and a decrease in the wage rate for bricklayers
- C** an increase in the price of new housing and a decrease in the wage rate for bricklayers
- D** a decrease in the price of new housing and an increase in the wage rate for bricklayers.

Answer

Explanation

(3)

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(Total for Question 7 = 4 marks)

SECTION B

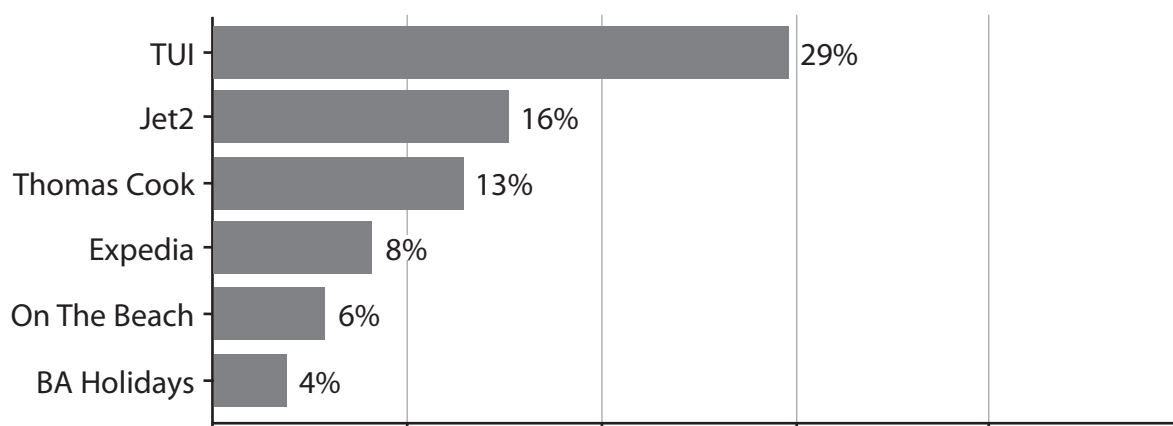
Read all extracts/figures before answering.

Write your answers in the spaces provided.

Question 9

The travel and tourism industry

Figure 1: Package holiday market share of the six largest providers, booked by UK residents, 2019










(Source adapted from: <https://knowledge.sharescope.co.uk/2019/10/16/finding-companies-that-control-their-own-destinies/The Times/ATOL>)

Figure 2: Jet2 package holiday prices to Sorrento

Price before Thomas Cook shutdown

Price 12 hours after Thomas Cook shutdown








2 Adults for 7 Nights from Monday 25 May 2020

-  Half Board
-  1 x Premium Double or Twin room
-  Return flights from Edinburgh
[View flight times](#)
-  22 kg Bag Allowance
-  10 kg Hand Baggage
-  ATOL Protected
-  Coach Transfers

Holiday price from **£1,576** Per person price

£788

2 Adults for 7 Nights from Monday 25 May 2020

-  Half Board
-  1 x Premium Double or Twin room
-  Return flights from Edinburgh
[View flight times](#)
-  22 kg Bag Allowance
-  10 kg Hand Baggage
-  ATOL Protected
-  Coach Transfers

Holiday price from **£1,648** Per person price

£824

Data accessed: 22nd and 23rd September 2019

Extract A

Marginal productivity of cabin crew

Cabin crew are responsible for loading passengers and providing in-flight meals. United Airlines is planning to reduce the number of its cabin crew members onboard international flights. The airline currently operates its planes with one more cabin crew member than its competitors. The marginal productivity of this additional crew member may be low. By reducing the number of its cabin crew members United Airlines will be able to operate more efficiently and compete more effectively.

5

(Source adapted from: <https://simpleflying.com/united-airlines-to-reduce-number-of-crew-on-international-flights/>)

Extract B

Thomas Cook's environmental impact

Thomas Cook Group plc's operations included its airline and 560 high street travel agents providing flights, hotels and package holidays.

The environmental impact of the travel industry is significant. It accounts for 8% of all global carbon emissions. Thomas Cook recognised the risks presented by climate change and actively engaged in reducing their airline emissions. Its plans included using more efficient aircraft and using lower-carbon fuel. In 2018, Thomas Cook was included in the top 10 of the world's most fuel-efficient airlines.

5

(Source adapted from: https://www.thomascookgroup.com/investors/insight_external_assesst/Thomas+Cook+Sustainability+Report+2018.pdf)

Extract C

Why did Thomas Cook shut down?

Thomas Cook Group plc ceased trading on 23 September 2019. The collapse of Thomas Cook left 600 000 travellers stranded overseas and approximately 21 000 worldwide employees were left without a job.

Thomas Cook's management said that the failure of rescue talks between banks, shareholders and the UK Government meant it had no choice but to shut down the business. 5

But in truth the tour operator's problems go back much further. A disastrous merger in 2007, increased debts, the internet revolution in holiday booking and Brexit uncertainty all contributed to the failure of the business. 10

In 2007 it merged with MyTravel. Thomas Cook directors had an objective of rapid company growth over short-term profitability. The merger was supposed to create a European giant, promising £75 million-a-year cost savings and a springboard to challenge emerging internet rivals. In reality, Thomas Cook was merging with a company that had only made a profit once in the previous six years, and the deal left the Group with huge debts. In May 2019, the firm reported a £1.5 billion loss. 15

The role of the management in Thomas Cook's collapse is being investigated by the UK Government. Thomas Cook executives' salaries and bonuses have been questioned. Directors received salaries totalling £20 million in the five years before its collapse. The Chief Executive Officer (CEO) earned a £500 000 cash bonus in 2017 and about £8.5 million in his five years with the company. It seems that around £4 million of this was in the form of shares. The share price reached £1.46 in 2018, but each share is now worthless. 20

The CEO said that the directors had worked "exhaustively" to rescue Thomas Cook and create a long-term turnaround strategy. "It is a matter of profound regret to me and the rest of the board that we were not successful." 25

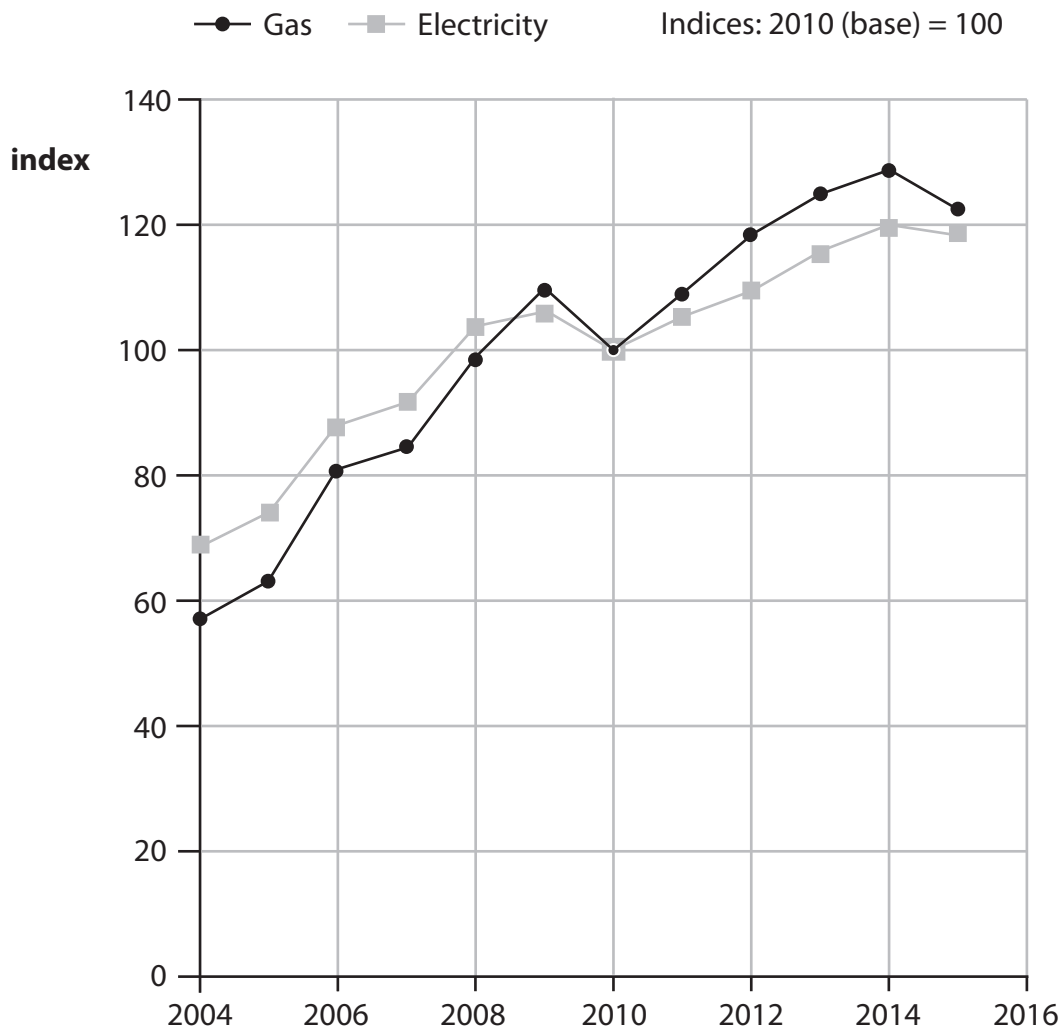
The UK prime minister admitted that the government refused to grant £150 million as a subsidy to help rescue Thomas Cook in the short run. The UK prime minister stated: "Clearly, that is a lot of taxpayers' money and sets up, as people will appreciate, a moral hazard in the case of future such commercial difficulties that companies face. I have questions about whether it's right that the directors, or whoever, the board, should pay themselves large sums when businesses can go down the tubes like that. One is driven to reflect on whether the directors of these companies are properly incentivised to sort such matters out". 30

(Source adapted from: <https://www.theguardian.com/business/2019/sep/23/thomas-cook-as-the-world-turned-the-sun-ceased-to-shine-on-venerable-tour-operator> and <https://www.ft.com/content/a7dd2554-de23-11e9-b112-9624ec9edc59>)

Question 10

The UK energy market

Figure 1: UK retail electricity and gas real price indices, 2004–2015



(Source: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>)

Figure 2: UK retail electricity and gas supply: market share by company, 2016

Company	Electricity %	Gas %
British Gas	23	36
EON	16	13
SSE	16	13
EDF	12	8
Scottish Power	11	9
RWE (nPower)	10	9
Other companies	12	12
Total	100	100

(Sources: <https://www.ofgem.gov.uk/chart/electricity-supply-market-shares-company-domestic-gb> and <https://www.ofgem.gov.uk/data-portal/retail-market-indicators>)

Extract A

Competition and Markets Authority (CMA) report into the UK energy market

An investigation into the UK energy market by the CMA concluded that customers have been paying £1.4 billion a year more than they would in a fully competitive market. It found that 70% of domestic customers of the six largest energy firms were on an expensive standard rate. These customers could each save over £300 a year by switching to a cheaper deal but appear reluctant to do so. 5

However, the CMA investigation found no evidence of anti-competitive practices by firms. There has even been an increase in new entrant energy suppliers over recent years and their combined market share has reached 12% in both gas and electricity supply.

To protect consumers, the CMA has introduced various measures to open up and increase competition in the UK energy market. These include: 10

- the creation of a database designed to help consumers switch energy suppliers – rival suppliers can directly contact these customers
- the conversion of all homes to smart energy meters making it easier for customers to measure energy consumption and switch supplier 15
- new rules to protect the four million vulnerable customers using prepaid meters – this includes a temporary price cap until smart meters have been installed.

(Source: adapted from 'Competition and Markets Authority Final report into Energy Market Investigation' <https://www.gov.uk/government/news/cma-publishes-final-energy-report-in-full>)

Extract B

Proposals to regulate profits in the UK energy market

Currently energy retail companies make an average profit of 7% of total revenue. The Chairman of the Competition and Markets Authority (CMA) suggested that these profits are as much as five times higher than they should be, given the companies' limited role in marketing, metering and billing customers. He recommended a profit cap of 1.25% of total revenue. 5

However, Scottish Power criticised proposals for regulating profits saying that it would reduce investment in the energy industry and undermine long-term energy provision. The firm claimed that such a low rate of return is below the profit margin made by supermarkets. 10

All six large energy firms are vertically integrated – producing as well as distributing gas and electricity. This can provide efficiency benefits but also harm competition.

(Source: adapted from 'Profit cap doesn't fit with new investment, energy boss warns', by Robin Pagnamenta, *The Times*, 19th September 2016)

Extract C

Skills shortages in the UK energy sector

The energy sector is facing a skills shortage of engineers and technicians. Some 29% of employers in the gas and electricity industries report unfilled job vacancies compared with an average of 18% across all industries.

A lack of information and advice on career prospects for young people is partly to blame - many graduates have a negative image of the work involved. There is also a lack of students taking science, technology, engineering and maths-based subjects at school and university. Less than one-fifth of the energy sector's workforce are women. 5

The energy sector is characterised by an ageing workforce - data from the UK Labour Force Survey reveal that around two-thirds of workers are aged over 50. These cannot easily be replaced as a long time period is required for training and developing workers' skills in a highly regulated industry. 10

Urgent action is required by businesses and the government to reduce labour immobility to benefit the energy sector. This action could include policies to increase investment in training programmes, recruit skilled workers from overseas, change the industry image and deal with its ageing workforce. 15

(Source: adapted from 'Sector insights: skills and performance challenges in the energy sector', by the UK Commission for Employment and Skills, March 2015; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416998/15.03.25._Energy_SLMI_-_evidence_report.pdf)

Handwriting practice area with 20 horizontal dotted lines.

Handwriting practice area with 25 horizontal dotted lines.

(Total for Question 10 = 15 marks)

Question 11

Hand car wash (HCW) firms in the UK

Extract A

What is the true human cost of your £5 hand car wash (HCW)?

The UK's hand car washes (HCWs) are extremely price competitive, but they have also been linked to modern slavery. Are they ever fair for workers?

There is little agreement about how many HCWs there are in the UK. Estimates range from 10 000 to 20 000. This lack of accurate information about the industry makes government regulation very difficult. Automated car washes, with their fierce rotating bristles, used to be the first option for drivers in a hurry. Now there is more choice. While the economy slows and incomes fail to keep up with inflation, demand for HCWs has grown. Many people see paying £5 for a car washed by someone else, rather than cleaning it at home, as a small expense which yields a high utility. But what is the true cost of a £5 car wash – and what should we be paying?

The growth of HCWs is partly the result of changes in the structure of industry in the UK. Many petrol stations have closed as drivers fill up at supermarkets. Garages and their forecourts have closed as cars become more reliable and locked into service agreements. The available sites for HCWs have therefore increased significantly and rents have fallen.

HCW entrepreneurs have identified available land and have benefitted from changes in the labour market, partly as a result of EU migration. UK drivers are now able to obtain cheap and effective hand car washing. For many migrants, car washes are a first job. "They accept car washing for a short period while they improve their language skills and move into other industries," says Ian Clark, a professor of work and employment at Nottingham Business School. "But there are also car-wash workers without networks who are in a dead end, working there for long periods."

Many drivers are only interested in getting the cheapest wash. If the price is very low, it probably means that workers are receiving less than the minimum wage and working in poor conditions. Crude calculations illustrate the problem. A £5 HCW employing five workers for 10 hours a day would need to wash 79 cars a day to just cover the wage costs. This assumes the workers are paid the minimum wage. This is one car every seven and a half minutes. Even if the profit can be higher on valet services, the price of which can be as little as £12 for a full inside-and-out clean, it's hard to see how a car wash price as low as £5 pays a living wage. This ignores all other costs which HCWs incur such as business rates and rent.

Evidence from car-wash workers is limited but Clark and others have been able to build a picture of some of the tougher conditions on drenched forecourts. "Like nail bars and small garment manufacturers, car washes are what we call 'hard-to-reach places,'" Clark

explains. As part of the research, Clark and his team spoke to workers from 45 HCWs in the Midlands.

35

Clark and his team met and observed workers who lacked waterproof boots or trousers, or hi-vis jackets and gloves. "They're spraying around hydrochloric acid solution for alloy wheels, breathing in the vapour and fumes," Clark says. Some workers were paid a little over half the minimum wage.

40

(Source adapted from: <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>)

Extract B

Government intervention in the HCW industry

There are three main areas of government intervention that might impact on labour intensive firms such as HCWs:

First, there is the planning issue which focuses on the impact on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent the use of tarmac rather than concrete on forecourts. Tarmac allows waste water and chemicals to seep into the sub soil. It could also be a requirement to have a sludge trap to stop the waste entering waterways. 5

Second, there is the health and safety issue for workers. Prolonged exposure to chemicals and lack of protective clothing puts the health of workers at risk. Performance targets could involve minimum levels of protective clothing and rest breaks for the workers. 10

Third, there is the issue of tax. The informal nature of the business type makes tax evasion easier.

Not all UK HCWs violate regulations. There are legitimate, regulated HCW firms as well as examples of good practice by independent outlets. One national supermarket, Tesco, has banned all independent hand car washes from its car parks. It is now in a partnership agreement with national car wash operator Waves. It uses a WashMark certificate of quality and compliance which was introduced by the industry to improve working conditions. Other major supermarkets are considering similar changes. One adviser believes £9 is a reasonable minimum price for a basic wash. Some pressure groups have developed a mobile phone app where evidence of unreasonable conditions can be reported by drivers. 15 20

Involving drivers in the issue, and making them demand fairer car washes, creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. 25

(Source adapted from: <https://www.parliament.uk/documents/commons-committees/environmental-audit/Hand-Car-Wash-evidence.pdf> research into HCWs by Professor Ian Clark, Nottingham Business School May 2018)

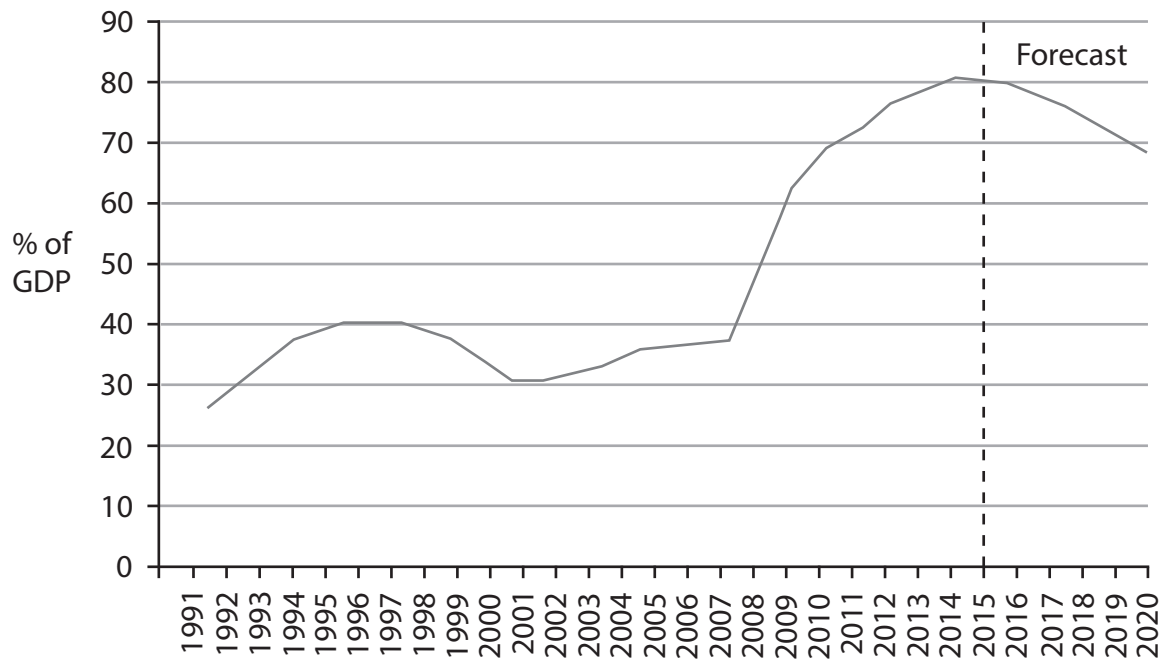
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(Total for Question 11 = 12 marks)

Question 12

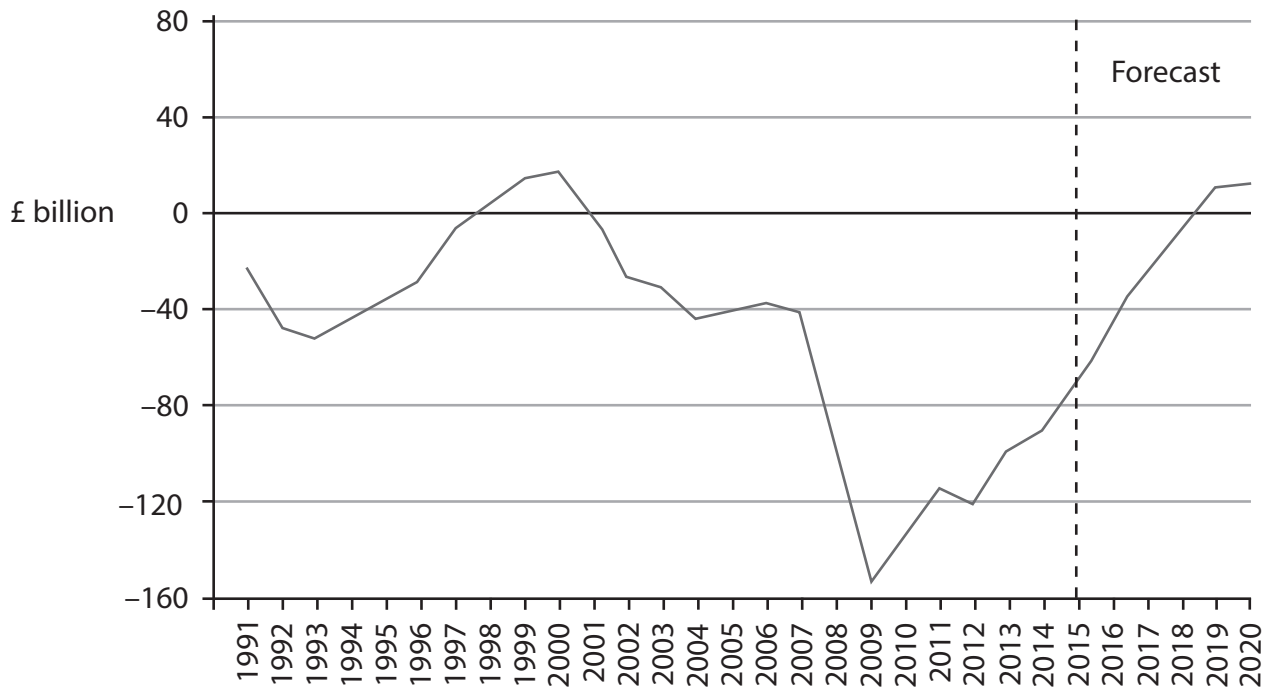
The UK economy

Figure 4: UK national debt as a percentage of GDP



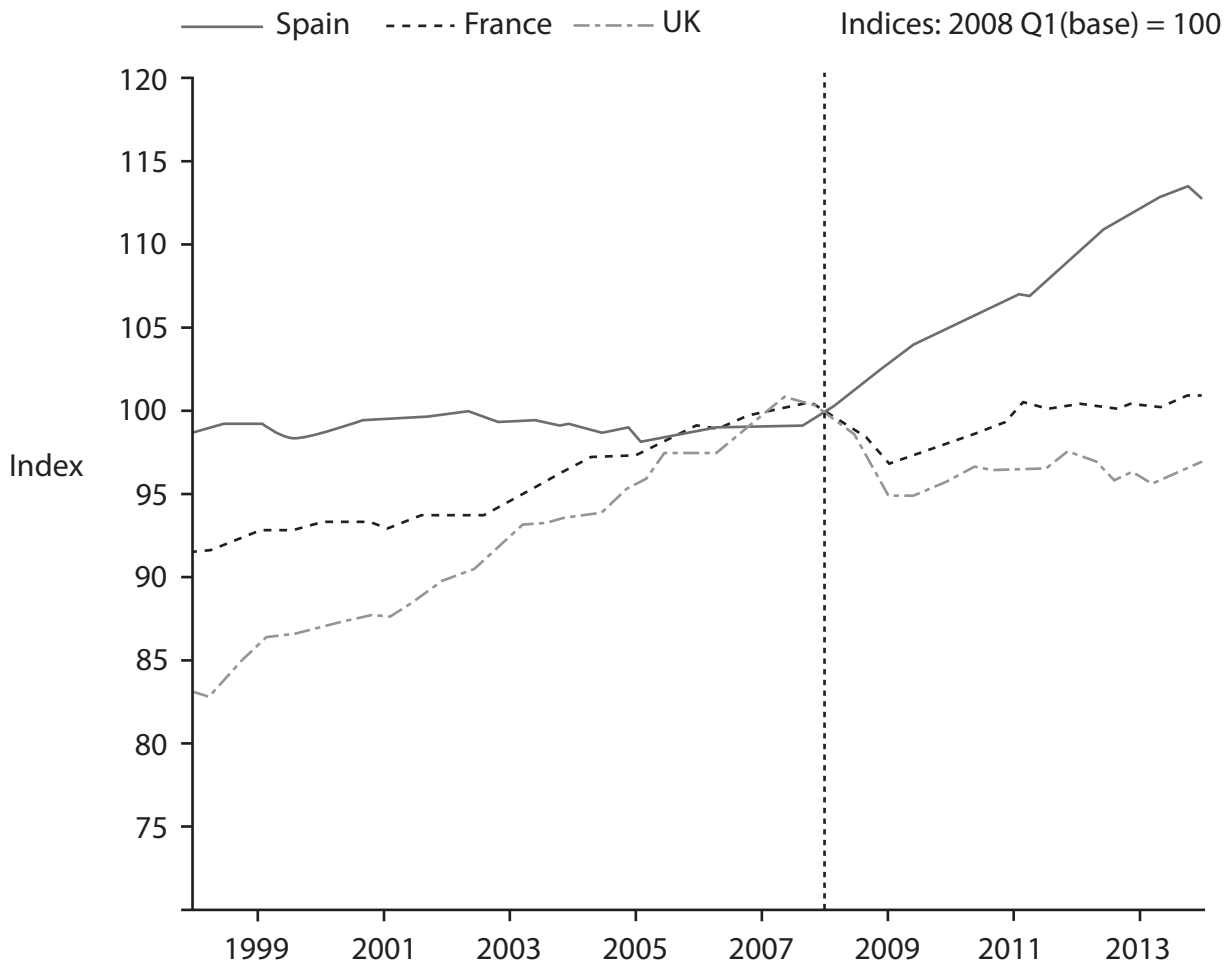
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 5: UK fiscal deficit, public sector net borrowing (PSNB)



(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 6: Labour productivity per head, selected countries



(Source: <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf>)

Extract C

The National Living Wage (NLW)

The Government has announced that from 2016 it will introduce a Living Wage Premium that will apply on top of the National Minimum Wage (NMW) for employees aged 25 and over to deliver a National Living Wage (NLW) for those people. The main NMW will continue to be set for all employees aged 21 and over, so that those aged 21 to 24 will continue to be subject only to that rate. 5

The effective minimum wage for the 25+ age group will therefore be over 13% higher in 2020 than would otherwise have been the case, and result in a 0.3% increase in wage costs overall. Further impacts on real GDP are estimated to be higher productivity (+0.3%) but lower average hours worked (-0.2%) and higher unemployment. Overall real GDP is forecast to fall by 0.1% as a result of the NLW. However these forecasts depend on estimates of the likely elasticity of demand for labour. 10

Academic evidence suggests that changes to the NMW since 1999 have led to only limited effects on demand for labour in the UK. The types of work that will be affected are relatively labour intensive, which may limit the scope for firms to substitute towards using capital. Firms may also be expected to shift demand in favour of the under-25s given that they will not be subject to the NLW, which all else being equal would lead to a smaller reduction in overall labour demand. Some of the reduction in employees could also be partially offset by a rise in self-employment. But increasing the NLW to a higher proportion of median earnings may lead to bigger effects than have been experienced in the past. 15 20

(Sources: adapted from <http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf> and <http://budgetresponsibility.independent.gov.uk/>)

Extract D

The productivity puzzle in the UK

Since the onset of the 2007–2008 financial crisis, labour productivity growth in the UK has been exceptionally weak. Despite some modest improvements in 2013, whole-economy output per hour remains around 16% below the level implied by its pre-crisis trend. Even taking into account possible measurement issues and changes in the size of the service sector, this shortfall is large and is often referred to as the 'productivity puzzle'. 5

Measures of productivity can be used to inform estimates of an economy's ability to grow without generating excessive inflationary pressure, which makes understanding recent movements important for the conduct of monetary policy. During the initial phases of the recession, companies appear to have acted flexibly by holding on to labour and lowering levels of capacity utilisation in response to weak demand conditions. But the protracted weakness in productivity and the strength in employment growth over the past two years suggest that other factors are likely to be having a more persistent impact on the level of productivity. These factors are reduced investment in both physical and intangible capital, such as innovation and training, and failings in the labour market such as immobility of labour and under-employment of skilled workers. Some economists explain this by using the concept of an output gap. 10 15

(Source: adapted from <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf>)

12 Discuss the likely impact of the National Living Wage on the profitability of firms.
Use a cost and revenue diagram in your answer.

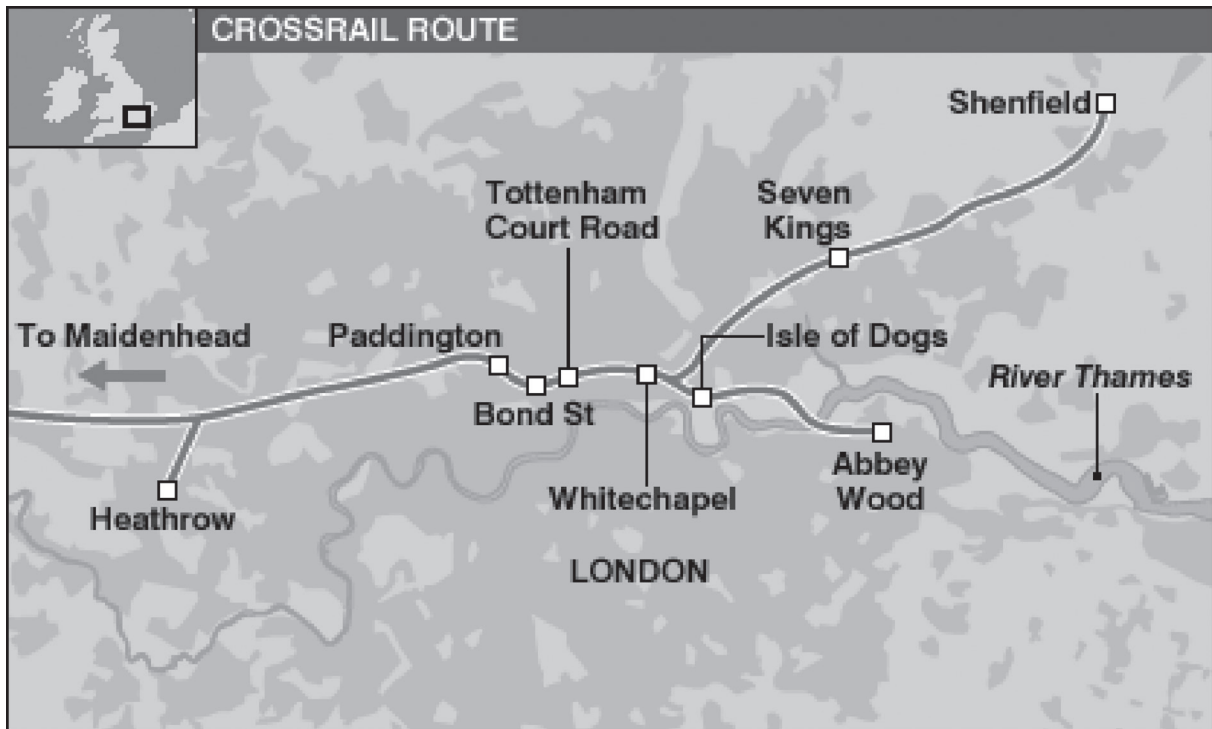
(12)

A large rectangular area containing horizontal dotted lines for writing an answer.

(Total for Question 12 = 12 marks)

13 The London Crossrail project

Figure 1 The London Crossrail route



(Source: Google images)

Extract 1 London Crossrail is Europe’s largest infrastructure project

A government-funded East-West rail link across London, known as Crossrail, is due to open in 2018. It involves building 73 miles of railway line to link Reading in the west to Shenfield in the east. It includes 38 railway stations and 26 miles of tunnels under London. London’s rail capacity is set to increase by 10% and overcrowding on the existing transport routes should reduce.

5

Crossrail is being built to cope with London’s growing population and to support further economic development of the capital city. An estimated 200 million passenger journeys per year will be made on Crossrail. Each train will be 200 metres long and capable of carrying 1 500 passengers. The project has coincided with the tendency for companies to move back into central London, reversing a 20 year trend.

10

Rail travel times are set to come down, for example, Heathrow Airport to the City of London will fall from 55 minutes to 32 minutes. The project will also bring a further 1.5 million people within a 45 minute commute to the major employment centres in London. There is now a discussion about building Crossrail 2 to improve links between north and south London.

15

(Source: <http://www.crossrail.co.uk/benefits/>)

Extract 2 Employment at London Crossrail

Over 9 000 people are directly employed on the project across 40 construction sites. Another 41 000 jobs have been created indirectly outside London, including the supply of thousands of tonnes of steel from Northern England and construction equipment from the Midlands.

However, at the start of construction in 2009, Crossrail required some 1 200 specialist workers with underground tunnelling skills but were only able to recruit 700 and these had an average age of 55 years. In response to the labour shortage, Crossrail set up a £15 million Tunnelling Academy to train the remaining specialist workers required for the project. This may prove useful for possible future transport infrastructure projects such as the controversial High Speed 2 rail line (HS2) between London and the north. 5 10

Terry Morgan, the boss of Crossrail, warned that Britain's construction skills base will be put at risk without a steady flow of large-scale infrastructure projects. Government spending on infrastructure projects fell by 50% in the first quarter of 2013, creating uncertainty over future employment for specialist construction workers and investment by firms. 15

(Source: adapted from 'Crossrail chief warns infrastructure schemes vital to skills base', James Pickford, Financial Times, 24 June 2013)

Extract 3 London Crossrail is unfair to taxpayers

Central and local government taxpayers are paying for most of the £14.8 billion cost of the Crossrail project. However, most taxpayers will receive little benefit from the rise in domestic and commercial property values. Only those properties near the stations will experience an increase in value as a result of Crossrail. House prices near the stations have already risen by 20% more than the average, and commercial values along the route are set to rise by at least 10%. The project could lead to an increase in regional inequality. 5

(Source: adapted from <http://www.transport-network.co.uk/Taxpayers-lose-out-on-millions-due-to-Crossrails-crude-funding-structure/9645#.UqOAJxZFAdU>)

13 With reference to Extract 1, assess the likely impact of the Crossrail project on the geographical mobility of labour.

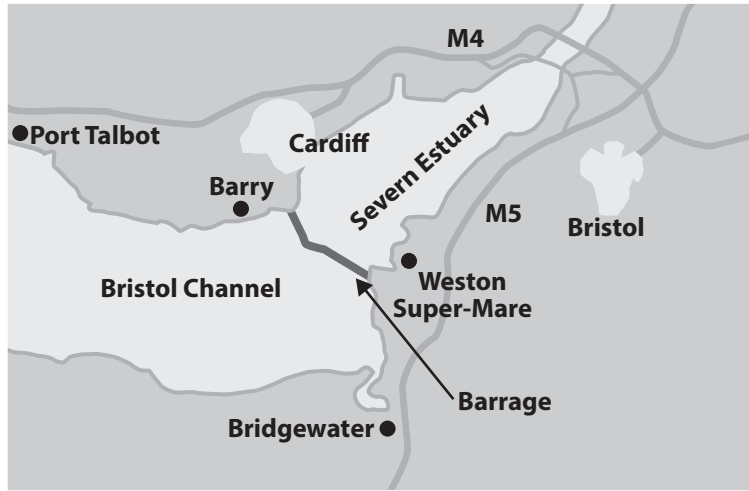
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(Total for Question 13 = 10 marks)

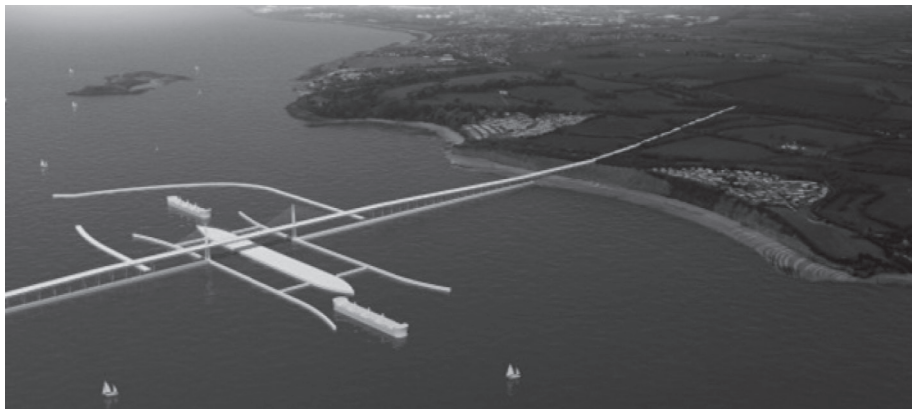
14 Proposals for a tidal barrage in the Severn Estuary

Figure 1 The proposed tidal barrage between Cardiff and Weston-Super-Mare



(Source: © Crown copyright 2002)

Figure 2 The proposed Severn Barrage



Extract 1 Benefits and costs of the tidal barrage

Plans for an 11 mile tidal power barrage across the Severn Estuary have been proposed by private consortium Corlan Hafren. The scheme would generate around 5% of the UK's electricity needs and be funded by overseas investors. No UK government subsidy would be involved in funding the huge £34 billion cost of the scheme. However, consumers will be expected to pay higher prices for the electricity generated from this renewable energy source (to cover increased production costs) compared to non-renewable energy supplies such as gas and coal. 5

The Severn Estuary has the world's second largest tidal range of almost 14 metres. Harnessing this energy would make a significant contribution to the government's target of generating 20% of the nation's energy from renewable sources by 2020. A tidal barrage, once complete, is carbon neutral. It would help diversify the UK's energy supply and operate for at least 120 years. This compares favourably with the lifespan of nuclear power plants (35 years) and wind turbines (25 years). These forms of renewable energy receive substantial government subsidies and planning restrictions are relaxed to promote their development. 10 15

More than 30 000 local jobs would be created from the scheme. This includes constructing road and rail links on top of the barrage to improve the transport infrastructure in the region. A factory to build the 200 giant turbines required for the tidal barrage and a deep water dock facility is also planned in Port Talbot.

The tidal barrage would also help reduce flooding along the river Severn floodplain. In 2007 severe flooding in the area led to £3.2 billion of damage. 20

However, the tidal barrage will have a significant impact on wildlife and their habitats. The Royal Society for the Protection of Birds believes that the barrage would destroy huge areas of estuary marsh and mudflats used by 70 000 birds. It would also block the migration routes of fish including wild salmon. Corlan Hafren intends to reduce the negative effects by building turbines which rotate at slow speed to minimise damage to sea life. 25

(Source for Figure 2 and Extract 1: Adapted from 'UK Government considering new multi-billion plan for barrage across Severn Estuary, Western Mail, 7th December 2011)

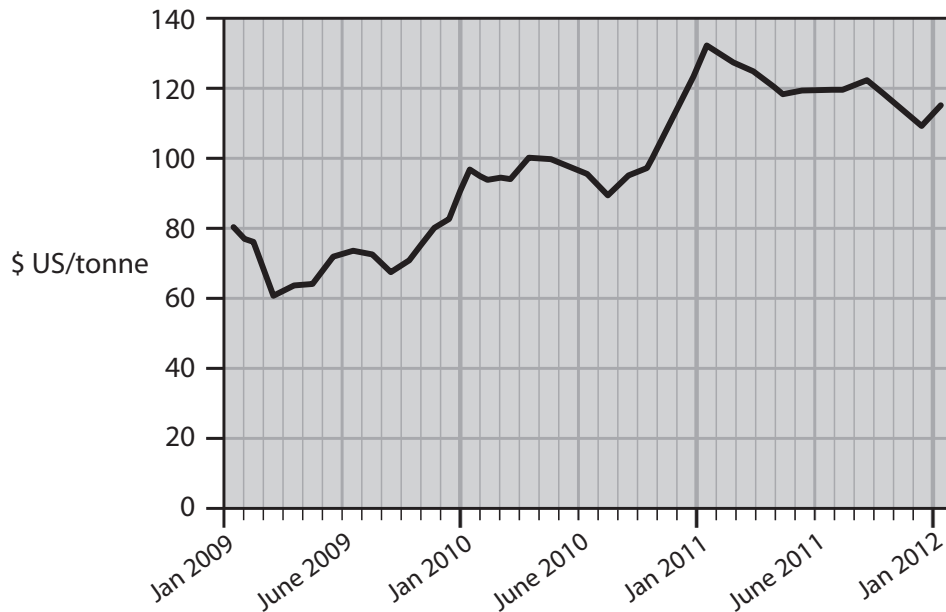
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(Total for Question 14 = 14 marks)

15 The price of coal

Figure 1: The rising price of Australian coal



(Source: © Worldbank.org)

Extract 1 Floods hit Australian supply of coal

Severe floods have damaged many of Australia's coal mines and railway lines, dramatically reducing the production and transportation of coal and increasing its price by up to 35% per tonne from November 2010 to January 2011. A vast area has been affected by the floods and the cost of pumping out the water and repairing the mines could run into hundreds of millions of dollars. The floods have also led to an increase in speculative buying of coal by stock market traders anticipating shortages.

5

Despite the higher price of coal and reduced output, the revenues of the big Australian coal producers have remained the same.

The increase in coal prices is expected to put pressure on electricity prices over the coming months. The UK generates about one quarter of its electricity by burning coal, much of which is imported from overseas, including Australia.

10

(Source: adapted from © Times Newspapers Limited, 5th January 2011)

Extract 2 Carbon emissions trading scheme in Australia

Around 500 of Australia's biggest polluting companies will be forced into an emissions trading scheme in 2015, similar to that operating in the European Union. The Australian Government intends to achieve a 5% cut in carbon emissions by 2020.

Although Australia accounts for just 1.5% of global greenhouse gas emissions, its heavy reliance on coal fired power stations makes it one of the world's biggest carbon polluters per head of population. It is also the world's biggest exporter of coal. 5

Initially, the companies in the scheme will receive 94.5% of their carbon permits for free, and then obtain government subsidies to purchase the other 5.5% of permits, so that no additional costs to the firms arise. Gradually over time, these subsidies will be removed. Emissions trading schemes have also attracted interest from China and South Korea. 10

However, the scheme is a blow to the Australian mining industry which faces carbon costs of at least 25 billion Australian dollars by 2020. According to Anglo American Corporation, some 40 000 jobs are directly at risk and a further 100 000 indirectly. It also believes some mining investment projects will be cancelled, adding further to structural unemployment. Government training programmes and relocation subsidies may be required to improve the mobility of labour. 15

(Source: adapted from © *The Financial Times*, 10th July 2011 and 8th November 2011)

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(Total for Question 15 = 14 marks)

16 The National Minimum Wage

Extract 1 A modest rise in the National Minimum Wage

The government announced today that the National Minimum Wage (NMW) will rise by 7p, or 1.2%, to £5.80 an hour, in October 2009. This rate applies to workers aged 22 and over. The rate for 18 to 21 year olds will rise from £4.77 to £4.83, while for those aged 16 and 17, the statutory rate will go up to £3.57 an hour from £3.53.

Brendan Barber, the Trade Union Council General Secretary, welcomed the rise in the NMW, especially at a time of increasing food and fuel prices which tend to hit the low paid hard. It is a positive step in reducing poverty. He believes employers could absorb the higher wage costs and reported that employment in low paid industries was holding up well. 5

However, Charles Cotton, of the Chartered Institute of Personnel and Development, said: "We are concerned that this decision will increase job losses in low-paid sectors. Our greatest concern at the moment is for younger workers and job-seekers." 10

(Source: Source: 'Miniumum wage to rise', by Kathryn Hopkins, *The Guardian*, 12th May 2009.)

Extract 2 Evidence from the National Hairdressers' Federation (an employers' organisation) to the Low Pay Commission

There are over 26,000 hairdressing salons in the UK. In 2008, employment rose in the industry by more than 5,000 to reach a total of 126,000. Hairdressing is labour intensive and around 89% of the workforce is female. Some 27% of employees are paid at the NMW. Many hairdressing employees specialise in services including cutting, styling, straightening, colouring and beauty treatments. 5

The National Hairdressers' Federation report that hairdressing salons have few options if faced with higher wages because customers are reluctant to pay more for haircuts in a depressed economic climate. It believes any increase in the NMW would lead to job losses, causing a decline in long-term employment opportunities in the industry. However, many staff are trainees, so the NMW does not apply to them. 10

Most new recruits to hairdressing are female and aged 16 to 19 years. However, the number of workers in this age group is decreasing in the UK labour market as many now stay in full-time education. Low pay, a long training period and the uncertainty of customer tips have also limited the supply of labour to the industry.

A considerable amount of informal work is undertaken in hairdressing. There are concerns that an increase in the NMW, which might lead to an increase in salon prices, would result in a growth in tax-evading activities in the industry, such as unrecorded cash payments. 15

(Source: Adapted from 'National Minimum Wage; report to the Low Pay Commission 2009')

(a) Explain **one** reason why the government intervenes in labour markets by imposing a National Minimum Wage.

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(b) With reference to the last paragraph of Extract 2, analyse why government failure might result from an increase in the National Minimum Wage.

(6)

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* (c) With reference to Extract 2, to what extent might an increase in the National Minimum Wage lead to job losses in hairdressing? Illustrate your answer with an appropriate labour market diagram.

(14)

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*(d) Apart from the National Minimum Wage, discuss the factors which might influence the supply of labour to hairdressing **or** to another occupation of your choice.

(14)

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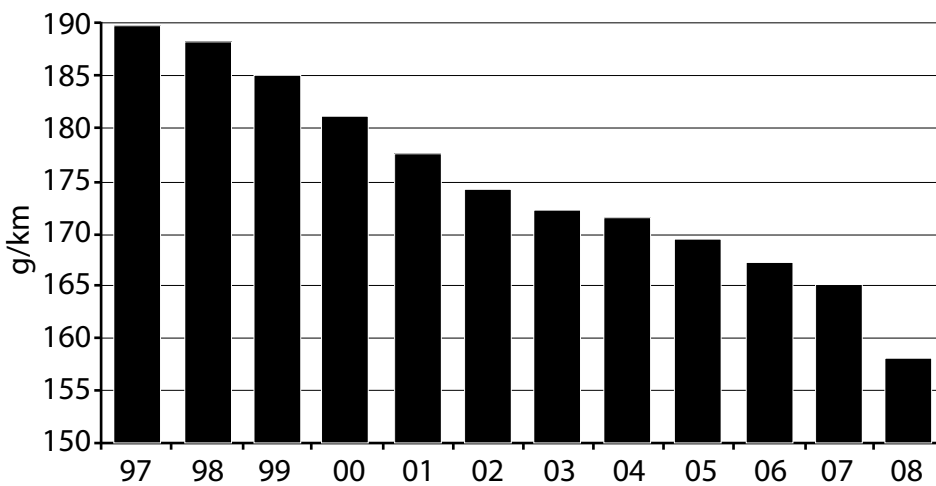
17 The Motor vehicle market

Figure 1: UK new car sales

Year	UK new car sales (million)
2003	2.58
2004	2.57
2005	2.44
2006	2.35
2007	2.40
2008	2.26
2009 (forecast)	2.16

Source: Society of Motor Manufacturers and Traders fact sheet 2009; www.smmmt.co.uk

Figure 2: Carbon dioxide emissions for new cars (grams per kilometre)



Source: Society of Motor Manufacturers and Traders fact sheet 2009; www.smmmt.co.uk

Extract 1 Impact of the economic downturn on the UK car market

The purchase of a car is the second largest expenditure item for consumers after buying a house. Not surprisingly, the economic downturn has caused a drastic fall in demand for new cars. New car sales fell by 21.8% in the first three months of 2009 in response to a 1% fall in real income over the same period.

Thousands of UK motor vehicle manufacturing jobs are likely to be lost this year. Nissan announced 1,200 redundancies in January and Toyota halved the number of shifts on its production lines. Several car companies have reduced wages, for example, Honda has reduced wage rates by 10%. Other companies have frozen pay to avoid compulsory redundancies. BMW and Ford closed their motor vehicle factories temporarily to reduce stockpiles of cars. General Motors, the owner of Vauxhall, may close its two UK plants in Luton and Ellesmere Port unless significant government grants or loans are provided. These factories are in areas of relatively high unemployment. 5
10

Source: Adapted from 'Fears for 40,000 jobs in British car trade as Toyota goes into red', by Leo Lewis and Tom Bawden, *The Times*, 23rd December 2008 and SMMT fact sheet smmt.co.uk

Extract 2 Government car scrappage scheme

In the 2009 Budget, Chancellor Alistair Darling announced that motorists who scrap a car more than ten years old will receive a £2,000 grant when purchasing a new vehicle. The scheme follows similar moves by major European countries, including France and Germany.

However, the motor vehicle companies have to contribute £1,000 to the subsidy and the remaining £1,000 is paid by the government. The UK scheme will cost just £300 million and will end when the money runs out. By contrast, the German government has allocated £4.49 billion, boosting new car sales by 40%. 5

The car scrappage scheme is likely to boost the sale of smaller models such as the Toyota Yaris, but will be of little benefit to larger and more expensive vehicles such as Jaguar. The scheme has also been criticised for benefiting foreign manufacturers since eight out of ten cars bought in the UK are imported. However, the government claims that many of these imported cars have UK-made parts and the scheme will help UK car retailers. 10

The Society of Motor Manufacturers and Traders urged the government to provide more help for the industry by reducing fuel taxes and making it easier for consumers to get car loans. 15

(Source: 'Budget 2009: car industry welcomes scrappage scheme', by Dan Milmo, *The Guardian*, 22 April 2009.)

17 Explain why labour immobility might be a problem following the closure of car factories.

(6)

(Total for Question 17 = 6 marks)

END OF SECTION B

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