



Centre Number

71

Candidate Number

General Certificate of Secondary Education
2014

Economics

Paper 1

[G9271]

FRIDAY 23 MAY, AFTERNOON



TIME

1 hour 15 minutes.

INSTRUCTIONS TO CANDIDATES

You should write your report in the spaces provided in this question and answer booklet. If you do not have enough space to complete your answer, extra lined pages are provided at the back of the booklet.

INFORMATION FOR CANDIDATES

The total mark for this paper is 60.

The task and marking criteria are described on page 2.

Your quality of written communication will be taken into account in assessing your report.

This paper is accompanied by a Case Study.

ADVICE TO CANDIDATES

You are advised to spend at least 10 minutes:

- Reading the task
- Reading through the Case Study
- Identifying parts of the Case Study that you might use in writing your report.

Writing your report should take about one hour. You may include diagrams where appropriate.

For Examiner's
use only

Question Number	Marks
AO1	
AO2	
AO3	

Total
Marks

The Task

As an economics student, you have studied information about the labour market and the reasons why some workers are paid more than others. You have been asked to write a report on this topic for your school magazine.

Using the Case Study, any other relevant information you have studied and your own knowledge and understanding of economics, write a report which clearly explains the differences in the wages paid to workers in the UK labour market and suggest ways in which income inequality could be reduced.

In your report, you should:

1. give a brief introduction setting out what your report is about
2. outline the differences in the wages earned by selected occupations in 2011
3. use the concepts of demand and supply to explain why some workers earn more than others
4. describe how income inequality has grown in the UK between 1999 and 2009
5. explain the possible impact that growing income inequality could have on the UK economy
6. discuss and recommend possible ways in which income inequality in the UK could be reduced.

Assessment

Your report will be assessed on your ability to:

- recall, select and communicate your knowledge and understanding of economic concepts, issues and terminology **(15 marks)**;
- apply economics skills, knowledge and understanding about wage rates and income inequality in the UK **(18 marks)**; and
- analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions **(27 marks)**.

Start your report on this page.

Report on wage differences and income inequality in the UK

[illegible]

Examiner Only	
Marks	Remark

3. Explaining the differences in wage rates: supply and demand

Examiner Only

Marks Remark

[illegible]

Examiner Only	
Marks	Remark

4. How income inequality has grown in the UK between 1999 and 2009

Examiner Only	
Marks	Remark

[illegible]

Examiner Only	
Marks	Remarks

5. Possible impact of income inequality on the UK economy

Examiner Only

Marks Remark

[illegible]

Examiner Only	
Marks	Remarks

6. Ways in which income inequality in the UK could be reduced: discussion and recommendations

Examiner Only

Marks Remark

[illegible]

Examiner Only	
Marks	Remarks

Continuation page (use this page if you need more space to complete your report).

[illegible]

Examiner Only	
Marks	Remark

Continuation page (use this page if you need more space to complete your report).

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Examiner Only	
Marks	Remarks

THIS IS THE END OF THE QUESTION PAPER



General Certificate of Secondary Education
2014

Economics
Case Study
for use with
Paper 1
Wage Rates and Income
Inequality in the UK
[G9271]
FRIDAY 23 MAY, AFTERNOON



You must use **this** clean copy of the Case Study in the examination and not your own annotated copy.

Case Study: Wage Rates and Income Inequality in the UK

Introduction

Wage rates in the UK are a topic of great interest and importance in the economy. The labour market, like any other, is subject to the forces of demand and supply.

Many factors affect the supply of workers in the UK economy. Official records show that there are 30 million people in the workforce. The majority of workers, approximately 27 million, are employed by businesses and organisations. The remaining 3 million make up the growing sector of self-employed workers. The supply of workers to the wide range of jobs within the economy is affected by many factors such as age distribution of the population, education and skills. In the UK, some professions such as medicine, nursing and teaching are regulated by professional bodies. It is impossible to work in these professions without meeting the regulatory requirements.

The demand for labour also depends on a number of factors. Low economic growth and in particular, the effects of the economic slowdown in 2011–2012 have reduced the demand for labour. The UK competes in an increasingly globalised economy. This has created demand in some sections of the economy. However, other sectors have not been able to compete successfully resulting in significant job losses.

For the majority of people their income consists of the wages they earn from working. However, income may also be earned from other sources such as savings and investments.

There is a growing gap between the wages and bonuses paid to top executives and those on more average wages. Some economists argue that wage inequality needs to be reduced but there is little agreement about the best policies to achieve this.

Source 1: What did people get paid in 2011?

The Annual Survey of Hours and Earnings (ASHE) is conducted every year by the Office for National Statistics. It includes only people who are employed and on the payrolls of companies. Therefore it does not include the earnings of self-employed entrepreneurs and celebrities who are some of the country's top earners. It also does not include additional rewards such as bonuses, pension payments and share options. However, it is still considered to be the most accurate survey of what people in general earn in the UK.

In 2011, the gross average full-time salary in the UK was £26,244. This was an increase of 1.4% on the previous year. Once part-time workers were included, the average increase in salaries was just 0.5%.

The annual earnings of a selection of workers are listed below.

Gross Full-Time Pay in Selected Occupations		
Occupation	Average Pay per year 2011 (£s)	Change since 2010 (%)
Premier League Footballer	780 000	Not available
Directors and Chief Executives	114 549	+15.3
Consultants and Doctors	82 962	+1.5
Train Drivers	42 350	+3.2
Carpenters and Joiners	22 818	-1.2
Care Assistants and Home Carers	12 959	+0.6
Hairdressers	9 599	-4.5

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A recent survey shows that one in four UK workers would move abroad for work. The chances of a "brain drain" are highest among younger workers with 35% of those aged 18–29 stating that they were willing to move abroad for a better job. Amongst the best educated workers, 36% of those with degrees and 38% of those with postgraduate qualifications said they would consider leaving the UK to find work. Even if a fraction of these people did move abroad, UK business would face a significant loss of talent just at the time when it's most needed.

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Source 2: Migrant workers helping to address labour shortages in social care

The ageing population in the UK has increased the demand for care workers. This sector has experienced great difficulties in recruiting and retaining workers. Increasingly, migrant workers from within and outside the European Union are being employed to care for older people.

This sector has historically been reliant on women who have combined low paid part-time work in social care with unpaid caring responsibilities for families. The introduction of the National Minimum Wage (NMW) in 1999 brought about an increase in average pay levels for social care workers, particularly in care homes. However, it is still one of the lowest paid sectors of the labour market.

Adapted from: <http://www.migrationobservatory.ox.ac.uk/policy-primers/social-care-older-people-and-demand-migrant-workers>

Source 3: Demand for highly skilled workers increases

New research shows that the demand for highly skilled professional workers is significantly stronger than the demand for workers across the labour market as a whole. Between 2010 and 2011, demand for highly skilled professional workers increased by 7%. This compared to an increase of just 4% across the labour market as a whole.

In many highly skilled sectors of the economy, such as IT, it is incredibly hard to find workers with certain skills within the UK, even when the economy is not performing well. Recruiters report that it can take up to six months to fill a vacancy for an “in-demand” IT skill and frequently, their search has to extend beyond the UK labour market. Rates of pay for such specialist workers often reflect the demand at a global level.

Adapted from: <http://www.hrmagazine.co.uk/hrol/news/1019584/demand-highly-skilled-workers-increases-faster-roles>

Source 4: Impact of new technology

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The introduction of new technology in work environments across the global economy means that humans are rapidly being replaced by robots. Millions of workers are no longer needed, forcing them to seek other employment that often requires lower levels of skill and provides lower pay and less job security.

For example, in the UK's farming sector, the introduction of automated harvesting of crops has improved productivity and benefitted consumers in the form of lower prices. However, this has resulted in fewer jobs for low skilled agricultural workers.

This change is being repeated throughout the global economy. Even in developing countries where labour is generally cheaper than in the UK, multinational companies are introducing automated production lines. Labour intensive production methods can no longer compete with the cost, quality and speed of production achieved through automated manufacturing.

In all three key employment sectors – agriculture, manufacturing, and services, machines are quickly replacing human labour.

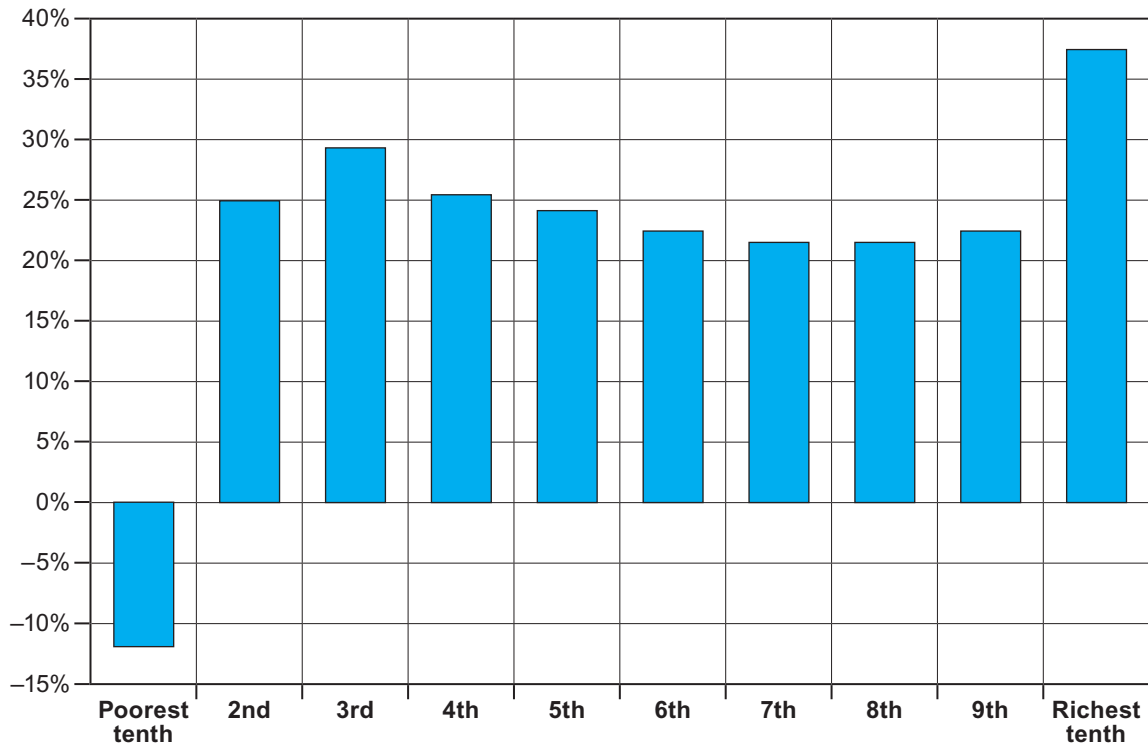
Adapted from <http://www.converge.org.nz/pirm/nutech.htm>

Source 5: Income inequality in the UK

The Organisation for Economic Co-operation and Development (OECD) has reported that the gap between the earnings of rich and poorly paid workers is growing faster in the UK than in other similar developed countries. In 2008, the richest 10% of workers in the UK earned an average of £55,000 per year. This was twelve times more than the most poorly paid 10% who earned on average just £4,700 per year.

In the UK the poorest 10%, unlike the rest of the population, have not seen a rise in their average real incomes over the last decade.

% Change in real disposable income between 1999 and 2009



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The OECD recommended that developed countries should try to redistribute income to poorer workers by following policies that provide good quality education, good health and family care. There are fears that the UK government's plans to reduce the budget deficit by cutting public spending and jobs in the public sector will do little to reduce inequality between rich and poor workers.

Adapted from: Guardian Randeep Ramesh Monday 5 December 2011

Source 6: Trade Unions plan strike action over pay

Two of the UK's largest trade unions, UNISON and GMB are planning co-ordinated strike action if the government does not change its policy on a pay freeze for public sector workers. UNISON, the trade union that represents thousands of public sector workers claims that the two year pay freeze has left workers worse off in real terms. Many others, especially women, have lost their jobs as public sector spending has been cut. The government insists that the pay freeze in the public sector is vital if the budget deficit is to be cut.

Trade union leaders have stated that politicians need to start treating public sector workers with respect and that there comes a time when enough is enough. There are also fears that the widening pay gap at a time of austerity could lead to social unrest.

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Source 7: How might inequality be reduced?

Recent changes to benefits and the top rate of income tax are expected to widen the gap between rich and poor. The increase in the rate of Value Added Tax (VAT) to 20% has also had more impact on lower income households.

Expected Impact per Year of Changes to Taxes and Benefits on Income Groups 2010–2015									
-£1100	-£1500	-£1700	-£1800	-£2000	-£2000	-£2000	-£1900	-£1500	+£1400
	2nd	3rd	4th	5th	6th	7th	8th	9th	
Lowest 10% of earners									Highest 10% of earners

If income inequality is to be reduced, it is argued the government will have to take action through changes to the tax and benefit system. There is also pressure for the government to review their contracts with low paying employers and to ensure that the NMW is set at a rate that provides a reasonable standard of living.

Adapted from: <http://blogs-reuters.com>, Daniel Tarling-Hunter Euromonitor International from National Statistics

Source 8: Pay up! It's time for wage rises

A recent report stated that nearly two million children with working parents were living in poverty. In these households, wages did not cover household bills or provide a decent standard of living. The new "Pay Up" campaign has been set up to tackle the problem of low wages and strengthen the bargaining power of lower paid workers. It argues that the UK economy has benefitted from rising productivity and higher corporate profits. Many top executives (CEOs) have been rewarded with sky-high pay rises and generous bonuses but this has not been shared across the economy.

Year	Average Annual Pay of top CEOs	Average Annual Pay of workers
1999	£1,234,983	£17,803
2009	£3,747,000	£25,816

Source: www.telegraph.co.uk/finance/jobs/8546801/Chief-executive-pay-vs=average-workers

One suggestion put forward is that the difference between average executive pay and the average pay of the company's workers should be reported at Annual General Meetings.

The "Pay Up" campaign is targeting some well-known and very profitable supermarkets and challenging them to share their financial success by paying workers a "living wage". In 2012, the "living wage" rate in London was estimated to be £8.55 per hour and £7.45 outside of London. This contrasted with the NMW rate of £6.19 for workers over the age of 21. The central argument is that pay rises would inject some much needed demand into the economy.

Adapted from: Guardian; Pay Up! It's time for wage rises. Daniel Garvin 29 May 2012