



ADVANCED GCE ECONOMICS

Economics of Work and Leisure

2884

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

None

**Friday 25 June 2010
Morning**

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer Question 1 and **one** question from Section B.
- If you need to use additional answer sheets, fasten these sheets securely to the Answer Booklet.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- The quality of your written communication will be taken into account in the marking of your answer to Section B.
- This document consists of **4** pages. Any blank pages are indicated.

Section A

Answer this question.

1

Poverty and Inequality in the UK

Fig. 1 Poverty in the North West region

Almost one in five households in Macclesfield fall below the government's official poverty line, recent published figures have shown. This rather bucks perceptions of the area as a stomping ground for Premiership footballers and high-powered businessmen.

The relative poverty line is calculated by taking the median average household income – £27 487 for England in 2007 – and then finding 60% of this (so £16 492). Anything below this is under the relative poverty line.

In Macclesfield, 19.4% of households lay below the poverty line in 2007. This compared with 24.5% in England as a whole, and 27.9% in the North West region. Neighbouring boroughs Congleton and Stockport had 20.7% and 23.4% respectively of their households in relative poverty.

Source: Macclesfield Express, 02.04.08.

Fig. 2 The effect of taxes and benefits on UK income distribution, 2006–07

	Bottom Quintile	2nd Quintile	3rd Quintile	4th Quintile	Top Quintile
Original Income [£]	4 900	11 600	23 100	38 000	72 900
Final Income [£]	14 400	18 900	23 900	30 800	52 400

Note: Original Income includes gross income of households from employment, occupational pensions and investments. To calculate the figures for 'Final Income', direct and indirect taxes are subtracted from Original Income, and cash benefits plus an estimate of the value of benefits in kind, for example from free education and health provision, are added. Thus, to illustrate, for the 3rd Quintile of households, Final Income was calculated as follows :

$$\begin{aligned} &\text{Original Income } £23\,100 - \text{Direct Taxes } £5\,200 - \text{Indirect Taxes } £4\,500 \\ &+ \text{Cash Benefits } £4\,800 + \text{Benefits in Kind } £5\,700 = £23\,900. \end{aligned}$$

Fig. 3 Changes in UK inequality over time

	1986	1996	2006
Gini Coefficient for Original Income	0.50	0.52	0.52
Gini Coefficient for After-tax Income	0.35	0.37	0.38

Notes: (a) After-tax Income is derived by adding Cash Benefits to Original Income of households, and subtracting both Direct and Indirect Taxes.

(b) The Gini Coefficient is a measure of the degree of inequality in a distribution – the closer is the coefficient to one, the greater the inequality.

Source: Economic and Labour Market Review, July 2008, ONS

- (a) Using the data in Fig. 3, summarise the main features of income inequality in the UK over the period 1986–2006. [2]
- (b) (i) Using the data in Fig. 2, summarise the main differences between Original and Final Income across the UK's income distribution. [2]
- (ii) Explain **two** possible reasons for these differences. [4]
- (c) (i) Using Fig. 1, compare the level of relative poverty in Macclesfield with that in the North-West and in England as a whole. [2]
- (ii) Comment on how an increase in the level of the UK's national minimum wage is likely to impact on the extent of poverty in Macclesfield. [4]
- (d) Economic growth often coincides with greater income inequality. Discuss whether income inequality is an inevitable side-effect of increased economic growth. [6]

Section B

Answer **one** question

- 2 (a) Explain how the earnings of a worker can be divided between transfer earnings and economic rent. [10]
- (b) Discuss the extent to which the concept of economic rent explains differences in earnings, for example between a head chef and a waiter/waitress. [15]
- 3 (a) Explain how contestability in a market can lead to benefits for consumers. [10]
- (b) For a leisure market of your choice, discuss the extent to which it is contestable in terms of its characteristics and its consequences. [15]
- 4 (a) Using examples, explain what is meant by labour market failure. [10]
- (b) Discuss the view that the best way in which a government can respond to labour market failure is to provide large subsidies to firms which offer worthwhile training to their employees. [15]

**Copyright Information**

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations, is given to all schools that receive assessment material and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact the Copyright Team, First Floor, 9 Hills Road, Cambridge CB2 1GE.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.