

GCE

Economics

Unit **F583**: Economics of Work and Leisure

Advanced GCE

Mark Scheme for June 2014

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Unclear
	Benefit of doubt
	Effective evaluation
	Irrelevant
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too vague
	Development of point

Highlighting is also available to highlight any particular points on the script.
 'SEEN' to be inserted on every blank page

Subject-specific Marking Instructions

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (b) of the essays and should be applied consistently between the different essays:

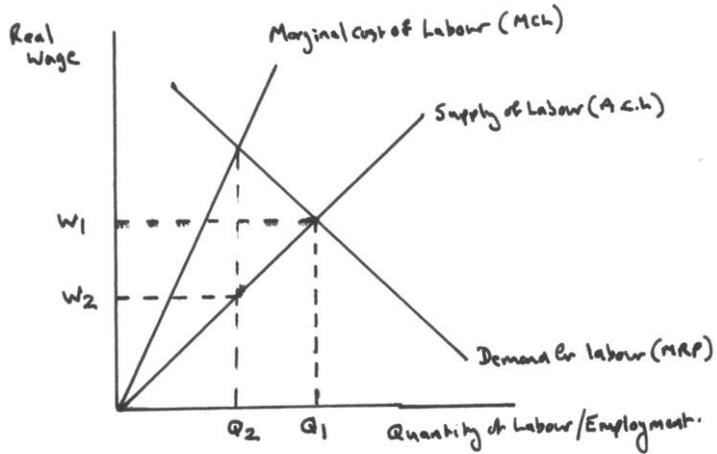
- Level 4:** Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.
- Level 3:** Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.
- Level 2:** Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.
- Level 1:** Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar.

Question		Answer	Mark	Guidance
1	a	<p>Using Fig. 1, compare the percentage of all cinema screens operated by multiplex cinema providers in 1999 and in 2010. Show all relevant calculations in your answer.)</p> <p>1999 $1624/2758 \times 100 = 58.88\%$ (1) Accept 59%, 58.9%, 58.8%</p> <p>2010 $2767/3671 \times 100 = 75.37\%$ (1) Accept 75%, 75.4%, 75.3%</p> <p>Maximum one mark for Comparison. Percentage, proportion increased (1). Or increase of 16 to 17% (1)</p>	3	Up to three marks.
	b	<p>Other than purchasing economies, state and explain two economies of scale which might arise in the cinema industry.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • Internal - Selling, Marketing, Transport, Technical, Managerial, Financial and risk bearing economies. • External – pool of skilled labour, improved infrastructure, research, training and specialist financial support <p>Exemplification: Large firms can afford to use a balanced team of machines (1) and, therefore, avoid having wasted spare capacity. This allows the firm to operate more efficiently than a small firm which can only have a limited number of machines (1) and the large firm will, therefore, have a lower long run average cost/cost per unit of production (1).</p> <p>Exemplification: Large firms are considered less of a risk by commercial lenders, such as banks (1), and as a result can borrow investment funds at lower rates of interest (1). This allows the firm to have a relatively lower cost per unit than a small firm (1).</p>	6	<p>One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks for each of two explanations.</p> <p>Can be either internal or external. No credit for bulk buying. Do credit the spreading of fixed costs.</p> <p>To obtain two explanation marks there must be reference to fall in LRAC. Allow fall in AC but not a fall in costs. No mark for fall in LRAC if explanation is vague/irrelevant.</p>

Question		Answer	Mark	Guidance
c	i	<p>Explain how the Corn Exchange in Newbury could calculate its unit labour cost.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> unit labour costs are the cost of labour per unit of output (1) cinema would therefore have to determine the total cost of employing its labour. This includes not only wages but also costs to the employer such as recruiting, training, NI etc. (1). this would then be divided by the number of people using the cinema (1) 	3	<p>Up to three marks.</p> <p>Explanation of TLC must refer to wages plus a wider range of labour costs.</p> <p>Divided by output not sufficient. Must focus on how cinema would measure its output, i.e. actual number of customers/screenings/tickets.</p> <p>No credit for films, number of films.</p> <p>No credit for 40 seats without ref to full capacity.</p>
	ii	<p>Comment on the implications for a cinema of an increase in its unit labour cost.</p> <p>An increase in unit labour cost for a cinema might lead to pressure to increase the price of tickets to that cinema.(1) The implication of this is to create a potential loss of price competitiveness and loss of customers to direct competitors or substitutes.(1)</p> <p>On the other side this might depend on a variety of factors such as how large the rise in unit labour cost is. Candidates might also consider the elasticity of demand. If demand is very inelastic then price might increase but not by a higher percentage than the fall in customers. Other cinemas might have the same increase in unit labour costs, eg increase in NMW affecting all employers and therefore competitive situation remains same. The unit labour costs might be a very small % of total costs.</p> <p>Accept any well made and relevant analysis.</p>	5	<p>Up to five marks.</p> <p>Up to two marks for an analysis of one side of the question. Basic analysis (1) + elaboration (1)</p> <p>Up to two marks for an analysis of the other side of the question. Basic analysis (1) + elaboration (1)</p> <p>Plus a further one mark for a judgement/conclusion – if both sides have been analysed.</p> <p>On each side one factor analysed well can gain both marks.</p>

Question	Answer	Mark	Guidance
d	<p>Using information in the case study, discuss the extent to which the cinema industry can be described as contestable.</p> <p>Key concepts when discussing the degree of contestability:</p> <ul style="list-style-type: none"> • are sunk costs • ability to enter and exit the market • ability to hit and run • costs facing incumbent firms and potential entrants are same • same regulation and state of technology for all <p>The number of firms is not important – in theory a monopoly/oligopoly can be perfectly contestable. Candidates should not be rewarded when contestability is confused with competition. Similarly the level of differentiation of the product is of less significance.</p> <p>Candidates might argue that the cinema industry is not very contestable as the sunk costs are quite high. There are clear financial barriers, such as set up costs, to entering the market and it is unlikely that all of this could be recouped on exit. This also makes the prospect of hit and run activity less likely. Candidates might also point out that firms in the cinema industry earn supernormal profit but do not seem to attract hit and run behaviour. Incumbent firms might also use some type of entry limit pricing.</p> <p>On the other hand the same regulations and technology are available to both potential entrants and incumbents. A new firm might buy out an existing complex or chain of complexes rather than set up in competition with new buildings, etc. This approach, therefore, makes hit and run a possibility and reduces the significance of sunk costs. Entry and exit becomes much easier and the market more contestable.</p>	8	<p>Up to eight marks.</p> <p>Up to three marks for an analysis of one side of the question.</p> <p>Up to three marks for an analysis of the other side of the question.</p> <p>Plus up to a further two marks for a judgement/conclusion – if both sides have been analysed.</p> <p>Candidates must focus on analysis of how the cinema industry is contestable or not contestable. Analysis of a market structure such as oligopoly does not answer the question. A judgement/conclusion that the market is an oligopoly can, however, be rewarded</p> <p>For three marks – at least one point must be well analysed and another point analysed at a basic level.</p> <p>No reference to case study – max 4 for analysis and max 1 for evaluation.</p>

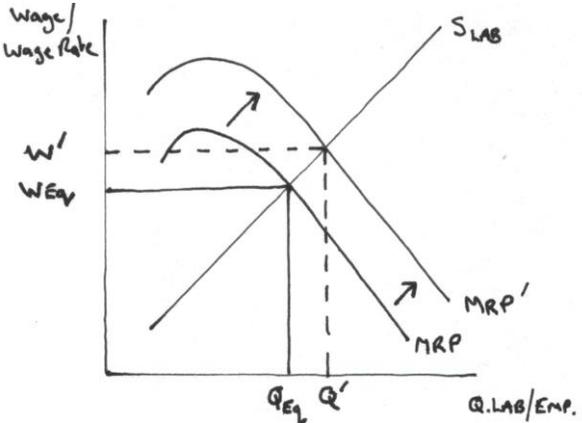
Question	Answer	Mark	Guidance
	Candidates might introduce the fact that films are viewed in a variety of ways and therefore entry into the wider definition of the 'cinema' is an example of ease of entry and hit and run type activity.		

Question		Answer	Marks	Content	Guidance
2	a	<p>Analyse, using a diagram, the impact of a monopsonist employer on the labour market from which it recruits.</p> <p>In order to show knowledge and understanding candidates should explain that a monopsonist employer is a situation where a single buyer operates in a labour market. Examples of monopsony or near monopsony might include the NHS and nurses and the Ordnance Survey for mapmakers.</p> <p>The impact of a monopsonist employer is based on the fact that the employer is a wage/price maker and not a taker. As the only employer in the market it is faced by the supply curve of the whole industry and can choose any point on the supply curve. The employer is still constrained by the supply curve in that if it wants to employ more labour it will have to increase the wage in order to increase the supply.</p>  <p>The assumption is that the employer will act in a maximising manner and employ labour as long as the MRP of labour is greater than the marginal cost of employing the labour (MCL).</p>	15	<p>No diagram – maximum Level 2.</p> <p>Good analysis might include an explanation of;</p> <p>why the MCL is above the ACL or why the employer chooses to employ at the level where $MCL = MRP$ or the impact of elasticity of demand.</p>	<p>Level 3 (9-15 marks) 13-15 marks. Good analysis two or more impacts. Plus correct diagram 11-12 marks. Good analysis of one impact or basic analysis of two. Both with predominantly correct diagram, at least. 9-10 marks. Basic analysis of one impact and predominantly correct diagram, at least</p> <p>Level 2 (5-8 marks) Application of knowledge. In this case an answer which makes assertions about the impact of a monopsonist employer on the labour market without going on to provide analysis.</p> <p>7-8 marks - two or more factors identified and applied 5-6 marks - one impact identified and applied</p> <p>Level 1 (1-4 marks) Knowledge and understanding of what is meant by a monopsonist employer and a labour market.</p>

Question			Answer	Marks	Guidance	
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			<p>The employer will employ at the level of employment where $MRP = MCL$. Q2 on the diagram.</p> <p>In order to attract Q2 workers the monopsonist has to offer a wage of $W2$.</p> <p>The impact of monopsony power is, therefore, to lower both wages and employment levels compared to the free market equilibrium level.</p>			

Question		Answer	Marks	Guidance	
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	b	<p>Discuss the extent to which government intervention is the best method of reducing the labour market failure caused by a monopsonist employer.</p> <p>An ability to understand the basic concept of market failure and government intervention will demonstrate knowledge and understanding.</p> <p>Market failure occurs as the wage in a labour market controlled by a monopsonist will be lower than the market equilibrium and the level of employment will also be lower. Thus, the market has not been left to the free market forces of supply and demand and the presence of market power on the demand side has not resulted in an efficient allocation of resources.</p> <p>In this case government intervention should be considered. This should be intervention usually undertaken on the grounds of fairness. Candidates might choose to analyse interventions such as the introduction of a minimum wage either on a national, regional or sectoral basis. This would have the effect, if set at the right level, of preventing the monopsonist from driving wages downwards. An alternative might be to attack the demand side of the labour market and encourage competition for labour through deregulation and competition in the provision of, say, health care.</p> <p>On the other hand, candidates might go on to question whether any chosen intervention will be successful. In the case of a minimum wage there might be problems in terms of setting the appropriate level and there are difficulties between labour markets in introducing sectoral minimum wages.</p>	20	<p>Level 4(a) 18-20 marks = good judgement and balanced discussion 16-17 marks = weak judgement and balanced analysis.</p> <p>Level 4(b) 13-15 = balanced, two sided discussion with relevant economic analysis of both sides. 11-12 = basic discussion which is predominantly one-sided</p> <p>To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum Level 2 mark.</p>	<p>Level 4(a) (16-20) Discussion that includes a judgement of the extent to which government intervention might reduce market failure caused by a monopsonist employer.</p> <p>Level 4(b) (11-15) For a balanced discussion of the extent to which government intervention might reduce market failure caused by a monopsonist employer or two sided on alternative methods of solving problem of market failure. A discussion lacking balance should receive no more than 13.</p> <p>Level 3 (5-10) Analysis of how government intervention might reduce market failure caused by a monopsonist employer. Could be analysis of alternative method.</p> <p>Level 2 (3-4) Application of knowledge and understanding of how government intervention might reduce market failure caused by a monopsonist employer.</p> <p>Level 1 (1-2) Knowledge of monopsony and/or market failure.</p>

Question			Answer	Marks	Guidance	
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			<p>When considering alternatives to government intervention candidates might turn to the supply side and consider the role of trade unions. This would lead on to a discussion of bilateral monopoly where a trade union negotiates with a monopsonist employer. There is plenty of scope for analysis here using diagrams and leading on to comments about the relative bargaining strength of the two sides.</p> <p>Some candidates might suggest that governments could intervene to give trade unions greater power or fewer constraints and then proceed to a bilateral monopoly argument. This approach should be credited.</p> <p>Accept any well made and relevant analysis.</p>			<p><i>Quality of Written Communication</i> is assessed in this question. Please see page 5 for guidelines.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
3	a	<p>Analyse, using diagrams, how changes in marginal revenue product explain the quantity of labour that will be employed.</p> <p>Marginal Revenue Product theory suggests that the demand for any factor of production depends on its marginal revenue product. A factor will only be employed if the MRP is greater than the cost of employing one more factor of production. Expect candidates to also introduce the concept of derived demand, realising that the demand for labour only exists because of the demand for the final product.</p> <p>MRP for labour is the change in a firm's revenue resulting from employing one more worker and is found by multiplying the marginal physical product (MPP) by the marginal revenue (MR) or price. Workers will be employed up to the point where MRP is equal to the wage (MCL, MR). When MRP is less than the wage then, in theory, the worker will not be employed.</p> <p>Analysis should continue with explanation of how a CHANGE in MRP affects the quantity of labour employed. Change could be either an increase or decrease in MRP or both.</p> 	15	<p>No diag. – Max level 2</p> <p>Focus is on Quantity of Labour employed NOT wages.</p> <p>Good analysis will explain why changes in MRP, MPP and price of product change employment.</p>	<p>Level 3 (9-15 marks)</p> <p>13-15 Good analysis of two or more factors.</p> <p>11-12 Good analysis of one factor or basic analysis of two factors</p> <p>9-10 Basic analysis of one factor.</p> <p>Answers that DO NOT CHANGE/SHIFT the MRP curve cannot achieve Level 3</p> <p>Level 2 (5-8 marks)</p> <p>Application of knowledge. In this case an answer which makes assertions about the impact of a MRP on the level of labour employed without going on to provide analysis.</p> <p>7-8 marks two or more factors identified and applied</p> <p>5-6 marks one impact identified and applied</p> <p>Level 1 (1-4 marks)</p> <p>Knowledge and understanding of what is meant by marginal revenue product.</p>

Question			Answer	Marks	Guidance	
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			<p>Credit any type of supply line.</p> <p>Major analytical points are the relevance of derived demand to the whole argument; an explanation of the level of employment, including the use of a diagram; how changes in the level of MRP affect the level of employment, again using a diagram and the relevance of elasticity of supply.</p> <p>Changes in the MRP can result from changes in either MPP or price of product (MR) or both.</p>			

Question		Answer	Marks	Guidance	
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	b	<p>Discuss the extent to which demand side factors alone explain wage differentials in real-world labour markets. A competitive labour market suggests that both demand and supply factors are important in explaining wage differentials.</p> <p>On the demand side, at the basic level, expect to see simple supply and demand analysis. It is most likely that candidates will take their analysis from (a) forward and concentrate on how wage differentials are related to MRP theory. MRP becomes the demand for labour and good analysis will discuss the impact that changes in MRP have on wage differentials. In part (a) the focus was on employment and any discussion of how changes in MRP impacts on wage differentials requires analysis of different MRP functions.</p> <p>Candidates might criticise the theory. Difficulties in measuring MRP both in terms of isolating an individual's output and in terms of those employed in service industries.</p> <p>On the other side of the argument there are the supply factors which need to be considered and an analysis of elasticity of supply, the relative power of wage bargainers and government intervention are all relevant in a discussion of how wage differentials are determined in real-world labour markets.</p> <p>The requirement for discussion and judgement should result in a comparison of different labour markets. Candidates should discuss the relative importance of demand and supply factors in different labour markets to obtain the top element of Level 4(a).</p> <p>Focus must be on wage differentials throughout the answer and not simply on wage determination.</p>	20	<p>Level 4(a) 18-20 marks = good judgement and balanced discussion 16-17 marks = weak judgement and balanced analysis.</p> <p>Level 4(b) 13-15 = balanced, two sided discussion with relevant economic analysis of both sides. 11-12 = basic discussion which is predominantly one-sided</p> <p>To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a maximum Level 2 mark.</p> <p>Discrimination is usually a demand side factor based on perceived and actual MRP.</p>	<p>Level 4(a) (16-20 marks) Discussion which includes a judgement of the extent to which wage differentials are determined by demand side factors alone.</p> <p>Level 4(b) (11-15 marks) For a balanced discussion of the extent to which wage differentials are determined by demand side factors alone A discussion lacking balance should receive no more than 13.</p> <p>Level 3 (5-10 marks) Analysis of why wage differentials are determined by demand side factors alone or by another factor.</p> <p>Level 2 (3-4 marks) Application of knowledge and understanding of demand side factors</p> <p>Level 1 (1-2 marks) Knowledge of demand side factors or wage differentials</p> <p><i>Quality of Written Communication</i> is assessed in this question. Please see page 5 for guidelines.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
4	a	<p>Analyse the main causes of poverty in the UK.</p> <p>Candidates might distinguish between absolute and relative poverty. This will show only knowledge and understanding of poverty unless, of course, it forms a part of an analysis which focuses on the causes of poverty.</p> <p>The reasons underlying poverty might include long term unemployment, lack of education and training, low wages, discrimination, sickness and disability, old age, single parent, reluctance to claim benefit and poverty traps.</p> <p>In terms of causes, candidates are expected to provide a significant degree of depth and detail in order to achieve good analysis.</p> <p>Give credit to any well made and relative cause.</p> <p>For instance unemployment may be a significant cause of poverty due to households having no income from employment and relying on benefits only. Good analysis might then focus on the significance of the duration of unemployment and the wages received if and when in employment affecting the ability to save. A household where the major income earner can be classed as long term unemployed and has a history of no or only low wage employment would be highly susceptible to poverty. Analysis might also consider whether the benefit system is robust enough to prevent unemployed people being classed as 'in poverty'.</p> <p>Accept reasons and analysis which focus on poverty. If candidates analyse relative poverty then causes might be more concerned with factors which generate inequality of income and wealth, e.g. changes in the tax system which</p>	15		<p>Level 3 (9-15 marks) 13-15 Good analysis of two or more causes. 11-12 Good analysis of one cause or basic analysis of two 9-10 Basic analysis of one cause.</p> <p>Level 2 (5-8 marks) Application of knowledge. In this case an answer which makes assertions about the causes of poverty without going on to provide analysis.</p> <p>7-8 marks - two or more causes identified and applied 5-6 marks - one cause identified and applied</p> <p>Level 1 (1-4 marks) Knowledge and understanding of different definitions of poverty</p>

Question		Answer	Marks	Guidance	
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		increase the gap between low income and high income. This approach must be clear and explicit that it is analysing RELATIVE poverty.			
	b	<p>Discuss the extent to which reform of the tax and benefits system alone is the best method to reduce poverty in the UK.</p> <p>Reform of the tax and benefit system might include measures such as reducing the bottom rate of income tax or increasing the tax free allowance.</p> <p>This would not only increase the level of after taxation income but also provide an increased incentive to work. On the benefit side an increase in the level, availability and information provision of state benefits would help to boost household income. A combination of both tax and welfare reform could, therefore, significantly help in reducing poverty in the UK through the income and incentive effects on the tax side.</p> <p>On the other hand, this reform might have its problems in the shape of the extent of the reform of the system and, in particular, the opportunity cost of this in terms of the impact on government spending and the budget deficit. Any impact of tax reform will mostly apply to those in employment and, thus, the policy might be ineffective if long term unemployment is the main cause of poverty. Connected to this is the argument that incentives to work will only become significant if the demand for labour exists – incentives might have little impact in times of recession or in cases of unskilled labour. Increasing benefits might have a negative impact on the incentive to work creating a dependency culture.</p>	20	<p>Level 4(a)</p> <p>18-20 marks = good judgement and balanced discussion 16-17 marks = weak judgement and balanced analysis.</p> <p>Level 4(b)</p> <p>13-15 = balanced, two sided discussion with relevant economic analysis of both sides. 11-12 =basic discussion which is predominantly one-sided</p> <p>To score a mark of 11+ candidates must have offered valid economic analysis upon which the discussion is based. If this economic analysis is not provided then the attempted discussion is no more than unexplained assertion and therefore scores a</p>	<p>Level 4(a) (16-20) Discussion that includes a judgement of the extent to which reform of tax and benefit system could be used to reduce poverty.</p> <p>Level 4(b) (11-15) For a balanced discussion of the extent to which reform of tax and benefit system could be used to reduce poverty in the UK or two sided on alternative methods of solving problem of poverty. A discussion lacking balance should receive no more than 13.</p> <p>Level 3 (5-10) Analysis of how tax and benefit system could be used to reduce poverty in the UK. Also could be analysis of alternatives to tax and benefit system.</p> <p>Level 2 (3-4) Application of knowledge and understanding of use of tax and benefit system to reduce poverty in the UK.</p> <p>Level 1 (1-2)</p>

Question			Answer	Marks	Guidance	
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			<p>Candidates could also introduce alternatives and analyse why they might be a better method of reducing poverty in the UK. Alternative methods might include, operating a NMW, removing an NMW, increasing employment opportunities using methods such as increasing the quality or quantity of training and education.</p> <p>Analysis of other methods might be in place of tax and benefit reform or in conjunction.</p>		<p>maximum Level 2 mark.</p> <p>Include Corporation Tax as part of tax and benefit system.</p>	<p>Knowledge of tax and benefit system.</p> <p><i>Quality of Written Communication</i> is assessed in this question. Please see page 5 for guidelines.</p>

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

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Facsimile: 01223 552553

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