

Tuesday 11 June 2013 – Morning

A2 GCE ECONOMICS

F583/01 Economics of Work and Leisure

Candidates answer on the Question Paper.

OCR supplied materials:

None

Other materials required:

- Calculators may be used

Duration: 2 hours



Candidate forename		Candidate surname	
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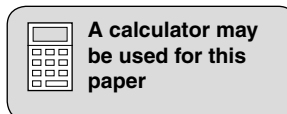
Centre number						Candidate number				
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.

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 **60**.
- The quality of your written communication will be taken into account in the marking of your answer to Section B.
- This document consists of **20** pages. Any blank pages are indicated.



Inequality in the distribution of income – a necessary evil?

A more equal distribution of income within a country is usually seen as a desirable economic objective and national governments, therefore, use a variety of methods to try to achieve a more equal distribution of income. However, economists disagree over which method would be most effective in achieving this objective.

A method of measuring the degree of inequality of income in an economy is to use a numerical measure which produces a number between 0 and 1. The closer the number is to 0, the more equal the distribution of income is in that economy. The change in income inequality in the UK between 1980 and 2010 is shown in Fig. 1.

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Year	1980	1990	2000	2010
Numerical measure of income inequality	0.26	0.33	0.35	0.36

Fig. 1 – Numerical measure of income inequality for the UK, 1980–2010

There are many different causes of inequality within an economy and some economists argue that income differentials play a vital part in influencing the incentive to work, and to work harder within an economy.

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Low-paid jobs and low-paid regions

Research into the low-paying occupations shows that the greatest numbers of minimum wage jobs are in hospitality, such as bars, restaurants and hotels (245,000) and retail (231,000), which together account for around 44 per cent of all minimum wage jobs. In addition, between 20 per cent and 30 per cent of the workers employed in hairdressing, cleaning and hospitality are paid the minimum wage. This compares with only 7 per cent of the people employed in social care.

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Just as low paid jobs are distributed unevenly across sectors, minimum wage jobs are spread unevenly throughout the UK. Northern Ireland is the part of the UK with the highest proportion of minimum wage jobs (6.7 per cent), followed by Wales (5.2 per cent) and England (4.1 per cent), while Scotland has the lowest (3.8 per cent). Looking at regions within England, the North East has the highest (5.8 per cent) while London has the lowest percentage (2.3 per cent) of minimum wage jobs.

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SECTION A

Answer **all** parts of the question in this section.

- 1 (a) (i) What is meant by inequality in the distribution of income?

Where the total income of an economy is unevenly distributed, where a smaller proportion of the population has a larger, than equal proportion, portion of the income. So inequality exists when 20% of the population owns more than 20% of income. [2]

- (ii) Using Fig. 1, describe the changes in income inequality in the UK between 1980 and 2010.

Income inequality has increased, the rate of increase in inequality has slowed down, seen by the smaller rise from 2000 - 2010, 0.01, than the larger rise from 1980 - 1990 of 0.07 [2]

(b) Comment on the extent to which low pay is the main cause of income inequality.

Low pay can be the main cause of income inequality as wages are often the main source of income for a household. So if one worker receives a higher wage than someone else then they have a higher proportion of total income creating inequality. Also people on low pay are often unskilled, low MRP, if little training is offered then there is no progression out of inequality so the problem persists.

On the other hand people on low pay might receive other sources of income from the government in the form of benefits. This might be correcting inequality. Another form of income is wealth, if people have more wealth and have an income from it then they have a higher income. Furthermore higher earners will more likely own more wealth, therefore further deepening inequality.

Some people might also be entirely dependent on state transfers which can be lower than wages, thus low state pay has caused inequality. In conclusion low pay is the ^{???} cause of inequality as the higher wage earners own more wealth and further the increase income inequality. Conclusion unclear [5]

(c) State and explain **two** possible methods of reducing **regional** income inequality.

1 Different taxation in different regions, so in regions where there is low income levels they have lower tax rates and higher income areas are taxed more. The government will then use more of the tax revenue in the low income areas.

2 Different regional minimum wages, increasing the minimum wage in low pay areas so their income increases hence reducing income inequality in the region. How will this reduce inequality between the regions?

[4]

(d) State and explain **two** reasons why jobs such as hairdressing, cleaning and hospitality have a high percentage of minimum wage workers.

1 Low skilled work, having a lower MRP, determined by the level of human capital, will earn a lower wage. Why?

2 High elastic supply, low time period for training. They will earn a low wage as the demand will be elastic too, so any changes in demand will have little effect on the wage as supply is very responsive or sensitive to wages.

[4]

- (e) Discuss the effectiveness of progressive taxation in reducing income inequality in the UK.

A progressive tax system, such as income tax, will increase the ^{proportion} amount of tax on income as income increases. This will affect higher earners more than low earners as they are taxed ^{a higher percentage of their income} more. This reduces income inequality as higher wage earners have a lower income, and low wage earners have a higher income as they can receive state transfers, which will reduce the inequality gap. Furthermore tax revenues can be used to increase education and training for low earners which will increase human capital so in the long run they earn a higher wage, which will further reduce inequality. Increasing payments on subsidies, using tax revenues, will give firms the funds to expand production and as such increase employment as subsidies work in the short run, as labour is relatively more flexible than capital. However this depends on the industry that is subsidised, and if they are operating at their PPC so more employment will be less productive for the firm.

Progressive taxation might not correct income inequality in instances of lack of income. This can be seen in developing countries where there is a lack of income. Taxing income will not have a significant impact on the distribution of income, it might hurt redistribution as people have less income for financing businesses. It is also dependent on how the government manages spending with the tax revenue. It can be used directly in the form of benefits to increase income or be used to for the trickle down effect through investment in infrastructure.

In conclusion, progressive taxation can reduce inequalities as the government can distribute the tax revenue to lower inequality but this is dependent equally on how the tax is distributed and collected. If there is government failure in unfair distribution of tax and in incorrect tax rates set. If tax rates are too high then people might either leave the country or avoid taxes which will reduce tax revenue. Thus the government can not correct inequality. [8]