

**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

**Monday 26 January 2009****Afternoon****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.
- 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 **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

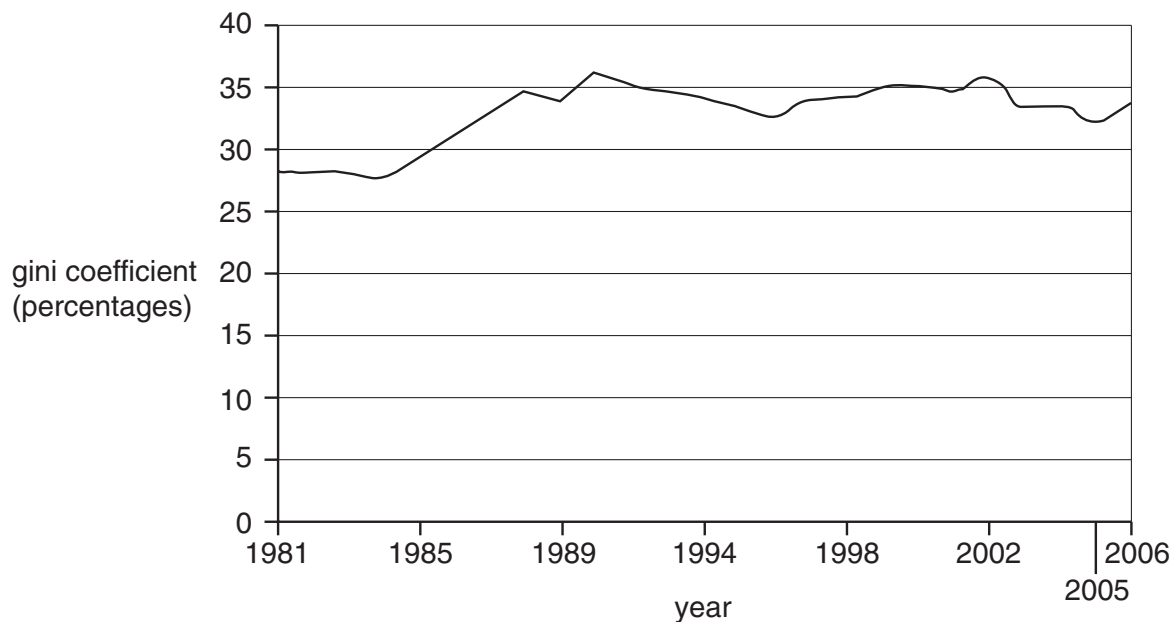
Answer this question.

1

### Income Inequality and Directors' Pay in the UK

Fig. 1 below shows changes in the Gini coefficient for UK disposable income, 1981–2006. The Gini coefficient is a measure of the inequality of income distribution, ranging from 0% to 100%. The lower the value, the more equal the distribution.

**Fig. 1**



Source: Office for National Statistics, [www.statistics.gov.uk](http://www.statistics.gov.uk)

### Extract 1

The Guardian's annual survey of executive pay at the UK's 100 largest companies shows that boardroom pay soared by 37% in 2006. There were inflation-busting increases in basic salaries, big cash bonuses and substantial payouts from share schemes. Among the most interesting results contained in the survey were the following:

5

- Annual growth in directors' pay:
 

2003	16%
2004	13%
2005	28%
2006	37%

10

- Only 5% of the total 37% by which directors' pay grew in 2006 was an increase in basic salaries. Taking cash bonuses into account, the annual rise in directors pay was 13% – but on top of that were gains from share-based incentives. During the same period, prices (on average) rose by 2.3%, and the average pay of other workers rose by 4%.

15

- The ratio between the average rewards of the 100 largest companies' chief executives and their employees rose from 93:1 in 2005 to 98:1 in 2006. So the work of a chief executive is valued almost 100 times more highly than that of their employees.

20

Brendan Barber, the TUC General Secretary, said: 'It is impossible to believe that top directors have become so much more productive than the rest of their staff over the last year. This growing gap is not just morally offensive but hits workforce morale and threatens social cohesion'. On the other hand, Miles Templeman, Director-General of the Institute of Directors, argued that 'exceptional performance should be rewarded'. 25

Adapted article by Julia Finch, *The Boardroom Bonanza*, 29th August 2007 © Guardian News & Media Ltd 2007

- (a) (i) Using Fig. 1, summarise the main trends in the distribution of disposable income in the UK between 1981 and 2006. [3]
- (ii) Comment on one possible reason for the change in income inequality in the UK between 2005 and 2006. [4]
- (b) Use the information in Extract 1 to calculate by how much the **real** basic salaries of the directors of the UK's 100 largest companies increased between 2005 and 2006. [3]
- (c) Explain the concept of marginal revenue product as the basis of the determination of pay. [4]
- (d) Discuss the view, expressed in Extract 1, that 'exceptional performance should be rewarded'. [6]

## Section B

Answer **one** question.

- 2 (a) Some workers may respond to a rise in their hourly pay by choosing to work more hours, whilst others may choose to work the same or even fewer hours. Use income and substitution effects to explain why this is the case. [10]
- (b) The government decides to reduce the standard rate of income tax. Discuss the possible effects of this change on hours worked and on the economy. [15]
- 3 (a) Explain why the level of profit can vary considerably between one oligopolistic industry and another. [10]
- (b) Discuss the impact of recent technological change on the efficiency and the profitability of firms in a leisure market of your choice. [15]
- 4 (a) Explain the effects which trade unions can have on the determination of relative wages. [10]
- (b) Discuss the extent to which UK governments should concentrate their efforts on policies which aim to make the labour market operate more flexibly. [15]

**[Total: 45 marks]**



*Copyright Acknowledgements:*

Fig. 1                      Source: Office for National Statistics, [www.statistics.gov.uk](http://www.statistics.gov.uk). Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.

Q.1. text                      Adapted article by Julia Finch, *The Boardroom Bonanza*, 29th August 2007 © Guardian News & Media Ltd 2007 [www.guardian.co.uk](http://www.guardian.co.uk).

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