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OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Monday 20 May 2019 – Morning

A Level Economics

H460/01 Microeconomics

Insert

**Time allowed: 2 hours
plus your additional time allowance**



SECTION A

Read the following stimulus material and answer ALL parts of question 1 in the question paper.

The UK labour market in the 21st century

The UK labour market has experienced both a large increase and significant changes in the past 20 years. Data published in the UK's Labour Force Survey in October 2017 shows employment continuing to rise and unemployment falling, as seen in Fig. 1.

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Fig. 1 – UK labour market statistics for June to August 2017

	Number (’000)	Change on previous quarter (’000)	Change on previous year (’000)
Employed	30 923	109	363
Unemployed	1 418	–63	–224
Economically Inactive (Aged 16–64)	8 812	–17	–13

Source: ONS

The unemployment rate was at a 42-year low, although there was still some slack in the labour market. Other evidence in the October 2017 data included:

- 10 average weekly earnings for employees increased by 2.2% in nominal terms, compared with a year earlier.**

average weekly earnings for employees decreased by 0.3% in real terms, compared with a year earlier.

- 15 employment growth was strongest for those aged 25–34 years and 50–64 years.**

employment fell among young people aged 16–24 years.

growth in employment over the year was greater for women (up by 246 000) than for men (up by 71 000).

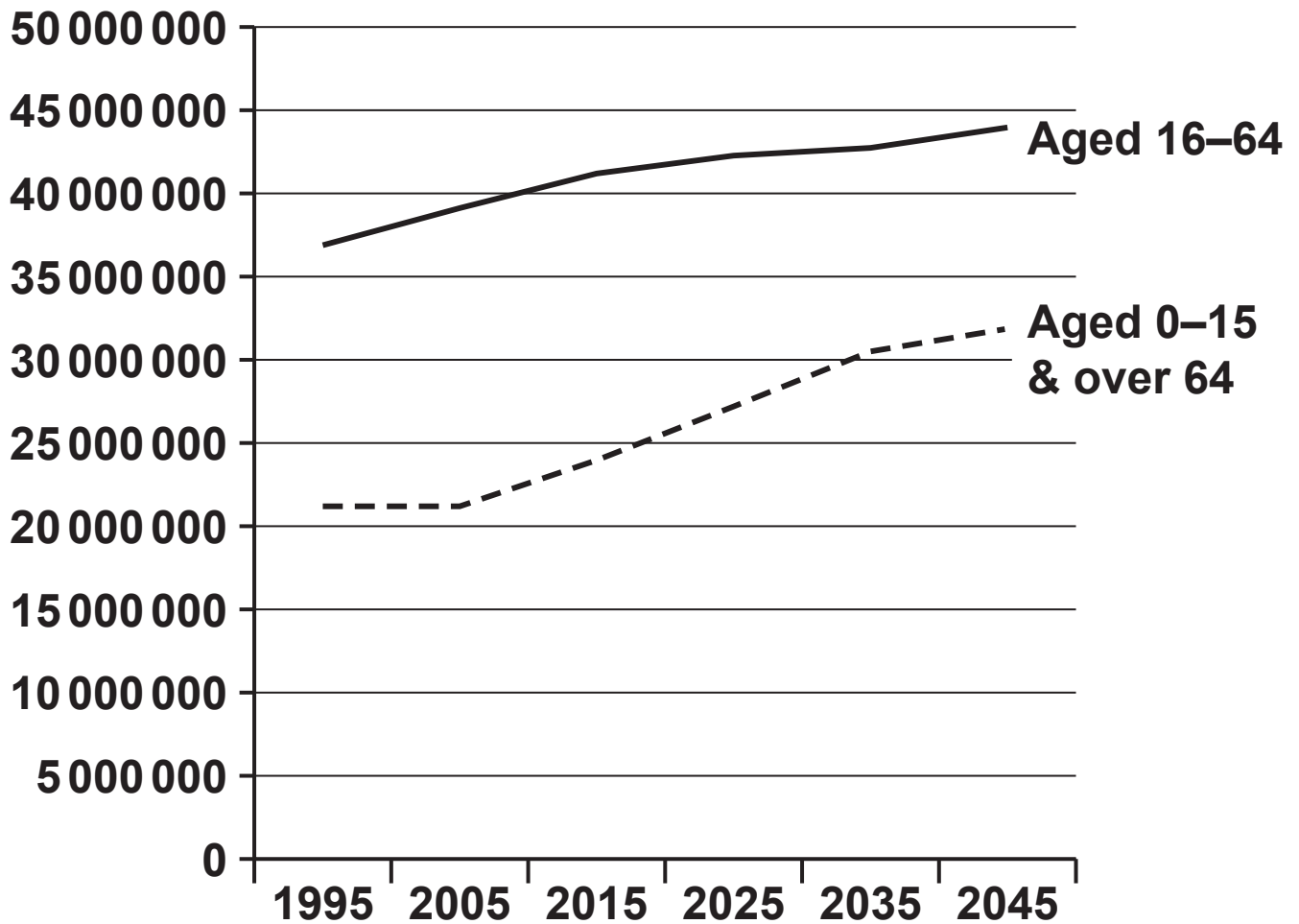
- 20 employment growth was not equal across the country, with the biggest increases in the West Midlands, London, Scotland and the South East but large falls in the South West, East Midlands and Wales.**

- 25 the proportion of workers in temporary jobs because a permanent one was not available was 27.6%.**

the proportion of people working part-time because they could not find a full-time job was 12.3%.

30 The UK economy has created nearly 6 million new jobs in the last 20 years which was necessary given the increase in the UK population over this period (see Fig. 2). Many of these extra jobs were primarily due to an increase in self-employment and employees in part-time work.

Fig. 2 – UK population estimates 1995–2045



Source: ONS

The ‘gig economy’

35 Each day, just before lunch, couriers dressed in the distinctive green and black uniform of Deliveroo, the online food delivery company, arrive at the end of the street, park their bikes next to a bench and wait. Holding their smartphones, they wait for someone,
 40 somewhere in the city, to place an order with one

of the nearby restaurants and cafés. When an order comes through, one of the couriers will pick it up and deliver it in exchange for a small fee. They will then return to the bench to wait for another call.

- 45 Welcome to the ‘gig economy’ which can be defined as, “a labour market characterised by the large number of short-term contracts or freelance work, as opposed to permanent jobs”.

50 Plenty of people in early 21st-century Britain can identify with the experience of working for a company like Deliveroo. But even more people are employed on zero-hour contracts in a wide variety of jobs, from stacking shelves to waiting tables to caring for the elderly. According to the Office for National Statistics,
55 around 900 000 workers rely on a job with a zero-hour contract. These people start every week not knowing how much work they will get or how much money they will earn. Informal or casual employment of this kind helps explain why the UK’s unemployment rate
60 has not grown out of control since the financial crash of 2008. This increased labour market flexibility has made it easier and less risky to employ workers, especially for monopolistically competitive firms who will expect to see a fall in their average costs.

65 However, opponents of the growth in casual employment, including the trade unions, claim that there are underlying problems associated with this labour model. Millions of people are “just about managing” and many are faring much worse. In
70 the 12 months up to March 2017, the UK’s largest food bank charity gave out more than one million emergency food parcels to people in desperate need. At the same time, household debt has grown to 150% of income. This debt has been fuelled by low wage

75 growth and low interest rates which has made credit easily available. But the main issue for the estimated 8.3 million people living with unmanageable debt is needing to borrow money to survive.

80 It is no more than a coincidence that these concerns are happening in a year which recognises the 75th anniversary of the founding of the UK welfare state which was set up to focus on, among other issues, a problem that had grown since the early 1800s: that many workers struggled to earn regular and reliable
85 wages throughout the entire year. However, some have come to regard the welfare state simply as a cost to be kept down rather than part of an economic and social strategy that aims to deliver security for all. Successive governments have cut benefits and
90 altered the tax system to move the burden away from more progressive direct taxation towards more regressive indirect taxation.

95 Fig. 3 shows the effect on different groups of households by comparing their original income earned from employment with their final disposable income after benefits and taxation have been taken into account.

Fig. 3 – Average incomes, taxes and benefits of households by decile group, 2015/16

	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	All households
Original income	6 286	13 988	17 410	25 754	31 424	39 293	47 963	59 622	68 968	117 960	42 867
+ Total cash benefits	6 387	7 748	8 313	6 319	4 494	3 729	2 368	2 283	2 004	1 544	4 519
Gross income	12 673	21 736	25 723	32 074	35 918	43 022	50 331	61 905	70 972	119 504	47 386
– Direct taxes	1 528	2 299	3 046	4 794	5 940	7 931	10 091	13 199	15 534	29 991	9 435
Disposable income	11 145	19 437	22 677	27 280	29 978	35 091	40 239	48 706	55 438	89 513	37 951

Source: ONS



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