



*Rewarding Learning*

General Certificate of Secondary Education

2009

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## Economics

Paper 1  
Higher Tier

[G2703]

WEDNESDAY 13 MAY, MORNING

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### TIME

1 hour 30 minutes.

### INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.  
Answer **all eight** questions.

This paper is accompanied by a Case Study. You must **not** use your own annotated copy of this Case Study.

### INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in questions **4, 5, 6, 7** and **8**.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

### ADVICE TO CANDIDATES

You are recommended to study the mark allocation for each question and part question and to allocate your time accordingly.

**Using the source material in the Case Study provided, and any other relevant information you have studied, answer the following questions.**

- 1 (a) Using **Source 1, Fig. 1**, calculate the change in the national minimum wage rate for workers aged 22 and over between 2007–08 and 2008–09. [2]  
  
(b) How could you tell if this is a **real** increase in the hourly wage rate? Explain your answer. [4]
- 2 Explain **two** possible reasons why the national minimum wage paid to older workers differs to that paid to younger workers. [4]
- 3 Using **Source 1, Fig. 2**, explain why some sectors of the economy are more affected than others by changes in the national minimum wage. [4]
- 4 (a) Using a suitable diagram, explain how the introduction of a national minimum wage might affect the demand and supply of workers in the economy. [6]  
  
(b) Explain why the government introduced the national minimum wage rather than allowing all wage levels to be set by market forces. [9]
- 5 Discuss the possible effects of recent changes in the national minimum wage on workers, businesses and the government. [12]

- 6 (a) Using examples from **Source 2**, explain **three** possible reasons why workers in some occupations are paid much more per hour than other workers. [9]
- (b) Discuss **two** possible effects on the UK economy of high pay settlements for some workers. [6]
- 7 Examine the possible economic consequences for the UK economy of the growing gap between rich and poor. [9]
- 8 Other than the introduction of the national minimum wage, evaluate the ways in which the government could try to reduce inequality in the UK. [15]

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**THIS IS THE END OF THE QUESTION PAPER**

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*Rewarding Learning*

**General Certificate of Secondary Education**

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**Economics**

Case Study  
for use with  
Paper 1

Foundation Tier and Higher Tier

**[G2701]      [G2703]**

**WEDNESDAY 13 MAY, MORNING**

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You must use this clean copy of the Case Study in the examination and not your own annotated copy.

## Source 1

### Annual increase in the national minimum wage

In October 2008 the national minimum wage (NMW) for adult workers increased from £5.52 to £5.73 an hour. This rise of 3.8% was announced at a time when the annual rate of inflation was 2.5%. The Chancellor rejected a request that 21 year olds should receive the full adult rate saying that such a move could damage their job prospects. **Fig. 1** below outlines recent changes to the national minimum wage rates.

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#### National Minimum Wage Rates (£)

Age	2007–08	2008–09
22 and over	5.52	5.73
18 to 21	4.60	4.77
16 and 17	3.40	3.53

**Fig. 1**

The new rate is expected to affect millions of low paid workers. Estimates indicate that 64% of these are women and that 61% are part-time workers. **Fig. 2** below shows how the NMW affected some sectors in the UK in 2007.

Impact of the national minimum wage on sectors of the UK economy	
	% of NMW jobs in the UK in each sector
Agriculture	2.7
Food processing	4.2
Textiles and Clothing	1.1
Hairdressing	1.4
Cleaning	5.9
Security	2.1
Social care	13.7
Hospitality	21.5
Retail	39.8
Leisure and Tourism	7.6

© Crown Copyright. National Minimum Wage, Low Pay Commission Report, 2008

**Fig. 2**

The chairman of the Low Pay Commission, the organisation that has the job of advising the government on the NMW, stated that: 'The UK has had a minimum wage for almost nine years. Throughout that time it has served the lowest paid workers well, increasing their pay without endangering jobs.'

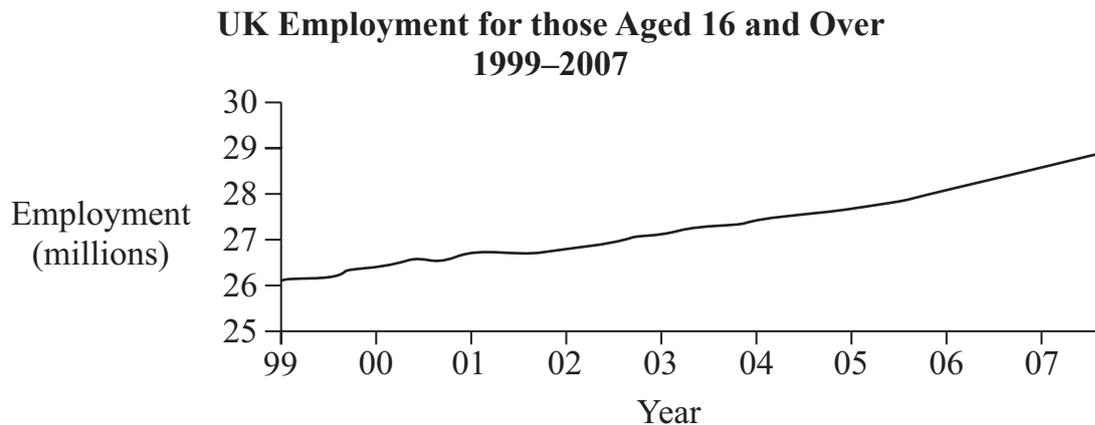
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Trade union leaders said that the government should have been 'bolder' and increased the NMW by a rate well above the rate of inflation as it had done in the previous eight years. Trade unions argue that adult workers should receive £6 per hour. One leader stated that there was still scope to continue raising the wages of the lowest paid without having ill effects on the economy. Employers have argued for some time that above-inflation rises could damage business and employment prospects. For the first time since its introduction, there had been a fall in the numbers of jobs in the low paying sectors.

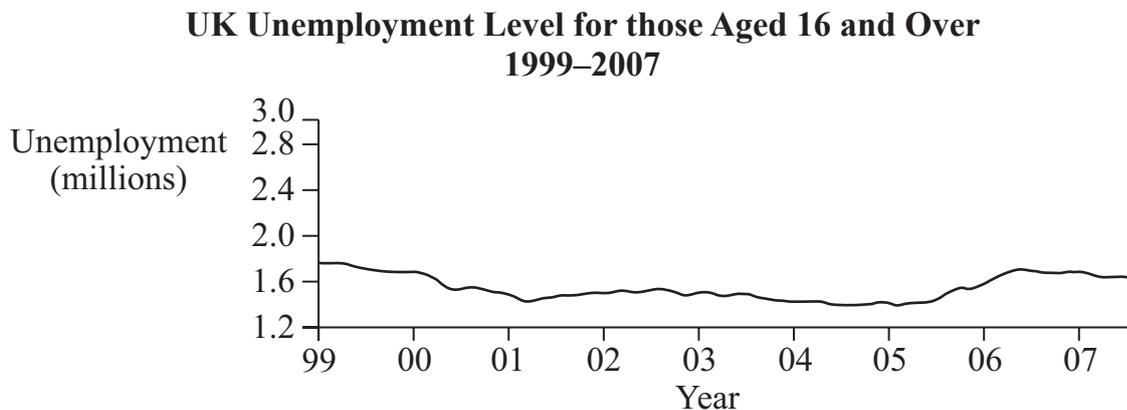
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The government stated that the introduction of a NMW in 1999 was a major achievement. Before then, hourly wage rates were as low as 35 pence for home-workers, £1.30 for cleaners and £2.25 for security guards. The government claimed that the NMW has helped families and the economy. Along with reforms to the tax and benefits system, it has helped the government to achieve one of its key objectives of tackling poverty.

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**Fig. 3**



**Fig. 4**

In parliament, the Prime Minister stated that some people had warned that a NMW would cost two million jobs, yet in the period since 1999 during a period of sustained economic growth, three million jobs have been created. Changes in the labour market are shown in **Figs. 3** and **4** above.

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In recent years there has been an increase in the supply of workers to the economy. This has been caused by several factors such as increases in the number of immigrant workers, more older people remaining in the workforce, the introduction of the NMW and reforms to the tax and benefits system that appear to have increased the worker participation rate.

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## Source 2

### Fat-cat pay increases – the rich are getting richer

A recent report suggested that the gap between the rich and poor in the UK is at its highest level for more than 40 years. Studies show that the richest 10% take home 28% of income. Generous bonuses earned by some workers, particularly those in the financial services sector and the City of London, are an important factor contributing to this situation. However, the number of people living below the poverty line has increased with more than one in four households classed as being so-called 'breadline poor'.

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The Office for National Statistics (ONS) reported that the total value of bonuses earned by workers during 2006 had increased by 24% to £26.4 billion. One million people in the financial services sector received £14.1 billion of this. These workers were responsible for handling some of the largest buying and selling deals in the economy. The boom in mergers and acquisitions, private equity buy-outs, such as the £10 billion buy-out of Alliance Boots, and hedge fund activity have all added to the pay packets of some of the best paid workers in the financial sector.

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Bonuses across the economy rose sharply because profits in many UK owned companies were at a record high. This was the result of several years of strong growth in the world economy. The ONS reported a 16% increase in company profits for the second half of 2006, the biggest rise for nearly 13 years. During the same period wages grew by just 3.6%, the slowest in more than five years.

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Trade union leaders have expressed concerns about the record size of bonuses and growing inequalities in workers' pay. They point to the difference in the fortunes of the City super-rich compared to those of thousands of vulnerable workers who, they say, have to survive on poverty wages. **Fig. 5** below shows the average hourly pay for some occupations in the UK and the percentage of females employed in each of these occupations.

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#### Average hourly pay for selected occupations in the UK (2006) and the percentage of females employed in each of these occupations

Occupation	Average hourly pay £s	Females as % of all employees
Directors and chief executives of large organisations	56.33	17
Doctors	33.01	37
Financial managers	29.92	32
Marketing and sales managers	22.68	29
Sports and leisure assistants	7.09	50
Receptionists	7.07	95
Kitchen and catering assistants	5.74	73
Bar staff	5.43	60

Source: Adapted from Equal Opportunities Commission

Fig. 5

High bonuses have resulted in an unprecedented increase in demand for luxury goods and expensive properties. While property prices in many regions started to fall in 2007, the luxury end of the London property market rose by 30%. Anyone wanting to spend their bonus on a new Rolls-Royce would have to wait 5 years. 25

However, employers' organisations claim that bonuses, like other performance-related mechanisms, are a very effective way to motivate employees. They are used right across the business sector and not just in the financial service industry. It is estimated that the City of London accounts for nearly half of all the growth in the UK economy and that the City firms contribute about one-fifth of all corporate tax revenues. 30

### Source 3

#### **Government claims that policies to reduce inequalities are working**

A new report from the major charity, the Joseph Rowntree Foundation shows that although living standards have increased in the past 60 years, the gap between the rich and poor is still significant. Furthermore, rich and poor experience huge differences in health. Estimates show that if the gap between rich and poor could be narrowed, the economy could make much better use of its human resources. 5

It is estimated that there could be 7500 fewer deaths among people under 65 if government policies could achieve a modest redistribution of wealth. If long-term unemployment could be reduced, 2500 lives under 65 could be saved. Policies to reduce child poverty could prevent 1200 deaths among children under 15.

The government has set important policy targets to reduce child poverty. One of their main policy approaches is to raise the wages of parents who work in the most poorly paid occupations through the NMW and reform of the tax and benefits system. The government has also sought to tackle inequality through improving education and training opportunities. 10

Some of the government's policies that aim to reduce inequality can be unpopular and difficult to put into practice. Protests about the effects of abolishing the 10 pence income tax band caused the government to rethink this plan. Furthermore, uncertain economic conditions present big challenges for policy-makers. Economic growth has slowed down, inflation is rising and house prices are falling. Energy and food prices are rising significantly and are adding to the problems in the economy. 15  
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