



# Edexcel A - A Level Economics

## Theme 3 – Business behaviour and the labour market

3.5 Labour market

Worked Examples

# Contents

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- Demand for labour
- Supply for labour
- Wage determination

### 3.5 Labour market

#### Exam Style Question 1

**Statement 1:** Since Poland joined the European Union (EU) in 2004, over one million of its workforce have migrated to other countries in the EU.

**Statement 2:** Many engineers have left Poland for higher paid jobs in other countries in the EU.

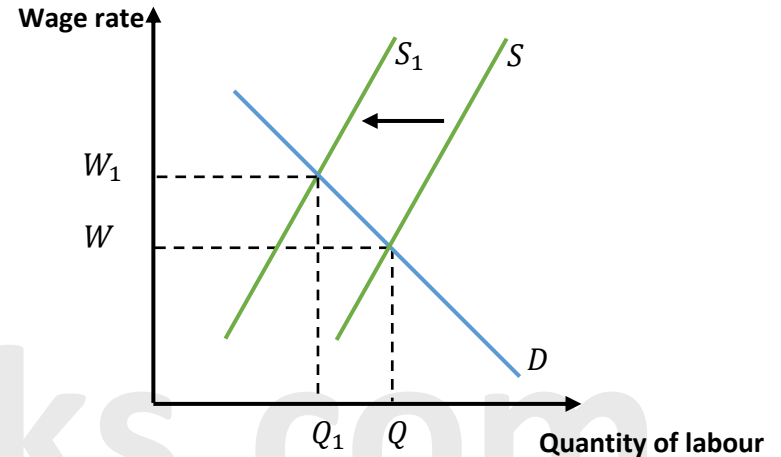
(Source: <https://www.forbes.com/sites/freylindsay/2019/08/09/polands-emigration-rate-is-falling-but-people-are-still-worried-about-the-brain-drain-bogeyman/#9550525792e6>)

Explain the likely impact of migration on the wage level of engineers in Poland. [4]

### 3.5 Labour market

#### Exam Style Question 1

**Answer:**



#### **Knowledge/understanding**

When a lot of engineers leave Poland to work in other EU countries for higher pay, it causes a **fall in the supply of engineers [1]** left behind in Poland. In basic economics, when the supply of something falls but demand stays the same, the **price (or in this case, the wage) usually goes up [1]**.

#### **Application**

This happens because engineers become **scarcer**, and firms still need people with those important skills to keep building bridges, factories, and other key infrastructure. [1]

#### **Analysis including diagram**

To attract and keep the engineers that are left, companies are likely to **offer higher wages**. [1]



### 3.5 Labour market

#### Exam Style Question 2

In September 2013, clothing workers in Bangladesh demanded an increase in the industry minimum wage from \$38 to \$100 a month. Such an increase in the minimum wage is likely to

[1]

- A Affect the level of employment among clothing workers
- B Decrease the supply of labour in the clothing industry
- C Increase the demand for labour in the clothing industry
- D Decrease the price of clothing in shops

Answer

Explanation [3]

You may use a supply and demand diagram in your answer.



### 3.5 Labour market

#### Exam Style Question 2

Answer:

✓ Answer: A – affect the level of employment among clothing workers. [1]

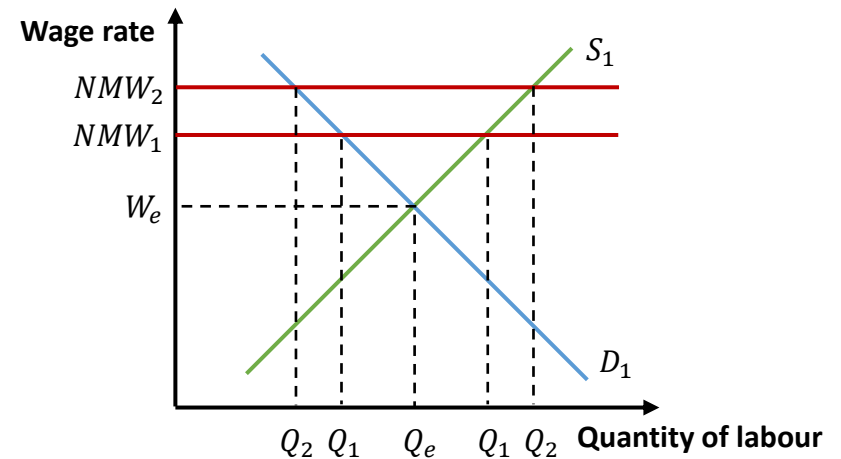
Explanation

A **minimum wage** is the lowest wage that employers are legally allowed to pay workers, it acts like a **price floor** for labour. [1]

When the minimum wage in the clothing industry in Bangladesh jumps from \$38 to \$100 a month, it increases the cost of hiring workers. Because labour has become more expensive, factories will demand fewer workers.

**This means employment is likely to fall**, some workers might lose their jobs, and new hiring could slow down. [1] At the same time, the higher wage might **encourage more people** to want to work in the clothing industry, increasing the supply of labour. [1]

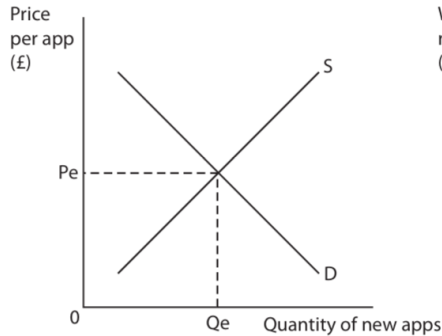
Diagram [2]



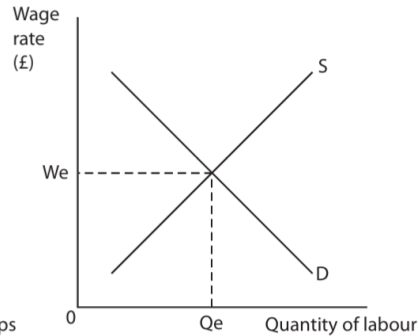
### 3.5 Labour market

#### Exam Style Question 3

Market for new applications (apps)



Labour market for application (app) programmers



The diagrams show the market for new apps (software used on mobile phones and tablet computers) and the labour market for app programmers.

Other things being equal, an increase in the demand for new apps is most likely to

- A Affect the wage rate of app programmers
- B Decrease the demand for app programmers and mobile phones
- C Decrease the supply of app programmers
- D Decrease the total revenue of tablet computer manufacturers

[1]

Answer

Explanation [3]



### 3.5 Labour market

#### Exam Style Question 3

Answer:

✓ Answer: A – affect the wage rate of app programmers. [1]

Explanation

When the demand for new apps goes up, app development companies need more programmers to build them. But since the number of skilled app programmers doesn't instantly increase, this extra demand for workers pushes up their **wages**. [1]

This happens because of something called **derived demand**, which just means that the demand for workers depends on the demand for the goods or services they produce. In this case, more people wanting apps means companies want more programmers. [1]

Because programmers are now more in demand, companies have to offer higher wages to attract them. This moves the labour market to a new equilibrium where both the wage rate and number of workers employed are higher. [1]

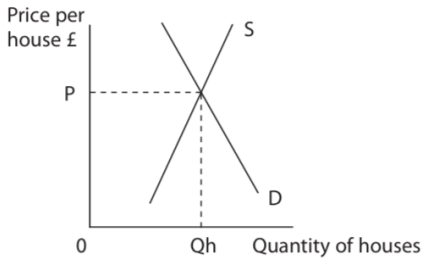
Quickly clearing up the wrong answers:

- B is wrong because demand for programmers would **increase**, not decrease.
- C is wrong because supply of programmers would not fall unless something like training time or bad working conditions changed (which isn't the case here).
- D is wrong because tablet manufacturers might actually **sell more**, not less, if there are more great apps available, they are complementary goods.

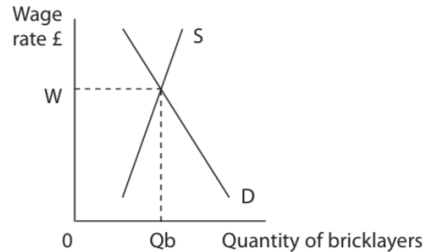
### 3.5 Labour market

#### Exam Style Question 4

Market for newly-built housing



Labour market for bricklayers



The diagrams show the market for newly-built housing and the labour market for bricklayers. New housing is a normal good. The initial price of housing is  $OP$  and the initial wage rate for bricklayers is  $OW$ . (You may annotate the diagrams in answering the question.)

A decrease in real incomes is likely to cause

- A An increase in the price of new housing and an increase in the wage rate for bricklayers
- B A decrease in the price of new housing and a decrease in the wage rate for bricklayers
- C An increase in the price of new housing and a decrease in the wage rate for bricklayers
- D A decrease in the price of new housing and an increase in the wage rate for bricklayers.

Answer

Explanation [3]



### 3.5 Labour market

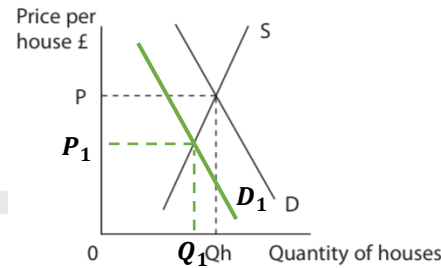
#### Exam Style Question 4

Answer:

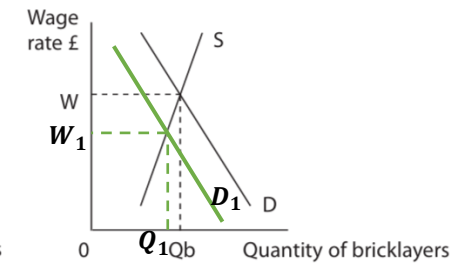
Answer: B – A decrease in the price of new housing and a decrease in the wage rate for bricklayers. [1]

Explanation:

Market for newly-built housing



Labour market for bricklayers



A **normal good** is something that people buy more of when their income goes up, and less of when their income falls. Houses are a normal good which means people tend to buy fewer houses if they have less money. [1]

If people's real incomes fall, they won't be buying as many new houses. This causes a **fall in demand** for newly-built housing. When demand falls, prices usually fall too and so the price of new housing will drop. [1]

Now, if fewer houses are being built, builders and bricklayers are needed less. Since the demand for their labour falls, **wages for bricklayers** will also fall. Firms won't want to pay high wages when there's less work to do. [1]

### 3.5 Labour market

#### Exam Style Question 5

Which of the following is most likely to increase the **occupational** mobility of labour?

[1]

- A An increase in the provision of public goods
- B An increase in the Stamp duty on buying a property
- C Training programmes for the unemployed
- D Relocation subsidies to workers.

Answer

Explanation [3]

### 3.5 Labour market

#### Exam Style Question 5

Answer:

✔ Answer: C – Training programmes for the unemployed. [1]

Explanation:

**Occupational mobility of labour:** how easy it is for workers to move from one type of job to another. If workers have the right skills, they can switch careers more easily when industries change or new jobs pop up. [1]

Many unemployed people struggle to find work because they do not have the right skills, qualifications, or experience. This is called **structural unemployment**, when workers' skills don't match the jobs available. [1]

Imagine a car factory worker loses their job but doesn't have the tech skills needed to work as a web designer. Without the right training, it's hard for them to change careers. [1]

**Training programmes** are the best way to fix this. They help people gain new skills and qualifications so they can move into different types of work, making the labour force much more flexible and ready to meet changing demand. [1]

**Why the other options are wrong:**

- **A (Public goods):** Things like streetlights or parks do not improve people's ability to switch jobs.
- **B (Stamp duty):** This affects people's ability to buy houses, which relates to **geographical mobility**, not occupational mobility.
- **D (Relocation subsidies):** Again, helping people move houses tackles **geographical mobility**, not switching between jobs.



### 3.5 Labour market

#### Exam Style Question 6

Which of the following is likely to be the most effective measure for increasing the geographical mobility of labour?

[1]

- A A subsidy to firms that relocate to areas of high unemployment
- B An increase in the Job Seeker's Allowance for the unemployed
- C An increase in the stamp duty tax on buying a house
- D Increased government provision of information on job vacancies in different areas of the UK.

Answer

Explanation [3]



### 3.5 Labour market

#### Exam Style Question 6

Answer:

✓ **Answer: A** – A subsidy to firms that relocate to areas of high unemployment. [1]

**Explanation:**

Geographical mobility of labour means how easily workers can move to different parts of the country to find work. If workers can move around easily, they can take up jobs wherever they are needed most, helping reduce unemployment. [1]

One of the biggest reasons why people struggle to move for work is **lack of information**. If workers don't know where the jobs are, they are less likely to move. This is called **imperfect market knowledge** (basically, workers and employers do not have full information about each other). [1]

If the government provides **more information** (like improving Job Centres or advertising vacancies in different areas), it will help workers find jobs faster and encourage them to move where work is available. [1]

**Quick reason why the others are wrong:**

- **A:** This mainly helps the firms, not necessarily the workers moving around.
- **B:** Giving unemployed people more money might make them stay unemployed longer rather than move for work.
- **C:** Making it more expensive to buy houses makes moving harder, not easier.

Please see the **'3.5 Labour Market Revision Notes'** pack for detailed notes.

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