

# *The City School*

Unified Mid-Year Examination

2016 - 2017

CLASS 10

ECONOMICS

Paper 2 – Answer Key



Q1.

- (a) Explain four factors that might influence a worker's choice of occupation. [4]  
things that might influence a worker's choice of occupation, such as wages, location, hours, conditions and qualifications.
- (b) Many companies do not dump their wastes properly and causes negative externalities. [4]  
Suggest ways government can intervene to deal with problem.  
Government can intervene by passing laws and regulation, imposing taxation on product, provide subsidies. Reward answers that explain any two methods with proper explanation.
- (c) Discuss whether a community should always exploit rather than conserve its resources. [6]  
Up to 6 marks for a discussion of whether it is better to use resources in the short run or preserve them for the long run, whether the use can be sustainable (they may not use that term) and whether there is a better or more efficient alternative. Reward answers that present both sides of the argument.
- (d) What do you understand by term "industrial actions"? [2]  
action taken by employees of a company and members of trade union as a protest, especially striking or working to rule.
- (e) Explain why a skilled worker is likely to be paid more than an unskilled worker. [6]  
Candidates could mention:
- reward for higher level of skill, training and qualifications
  - they are likely, therefore, to have a higher level of productivity (they may have some idea of marginal revenue productivity, although it is not on the syllabus)
  - such workers are relatively scarce/in shorter supply compared to unskilled workers
  - it is less easy to recruit skilled than unskilled workers
- A list-like answer, with very little explanation, can gain no more than 3 marks.
- (f) Discuss why different occupations have different rates of pay. [8]
- Discussion of availability of people for job in terms of skill, training; discussion of demand for product or service and willingness of consumers to purchase product or service.
  - Comparison using appropriate examples. Max. 4 marks for purely descriptive approach, with no reference to demand and supply. [6] Higher wages may motivate workers (1) this can increase productivity (1) reduce costs of production. (1)

## Section B

Answer any **three** questions.

**Q2.** In 2007, it was reported that a trade union of post office workers feared that increased capital investment would mean more automation and job losses. The union demanded that managers allow higher wages and shorter working hours for its members. [2]

(a) Explain what is meant by a trade union. [2]

Group of workers linked together usually by a common occupation with the aim of improving or monitoring the welfare of the group. [2]

(b) What is meant when an industry is said to become more capital-intensive rather than labour-intensive? [4]

Explanation about proportionate use of capital/machines/automation to other factors, rather than higher proportionate use of labour. [4]

(c) Describe the functions of a trade union. [6]

Description of union functions, protect working conditions, be concerned about safety issues, negotiate over wages, sometimes provide education, take active role in collective bargaining, negotiate favourable deals for members with retail/service industries. [6]

(d) Discuss the effect that the activities of a trade union might have on an economy. [8]

Could improve the well-being of the workers so could improve productivity. Could cause wage rises which might cause price rises, could disrupt production which could cause detrimental effects on growth of economy. But without unions, workers could be exploited and in the long term the economy could suffer. Look for response which gives both sides of the argument. Maximum of 4 marks if one-sided discussion. [8]

Q3. Sometimes it is said that a person chooses a job because of non-wage factors.

(a) Define the term 'Derived Demand' [2]

When demand for one good or service occurs as a result of demand for another. The demand for labour by firms is a derived demand because labour is needed to produce goods and services.

(b) Explain, using two examples, the meaning of non-wage factors. [4]

Definition of a non-wage factor – a non-remuneration payment (1).

Examples of non-wage factors affecting the choice of a job (3):

- length/number of holidays
- working conditions/environment
- hours of work
- promotion/career prospects
- travelling distance
- size of company
- social/canteen facilities
- provision of insurance scheme
- company car.

(c) In mixed economy government role cannot be ignored. Explain why do government intervene in labour market? [6]

Government intervene

- To protect the rights of employer and employee
- To outlaw and regulate restrictive practices that may be used by powerful trade unions and major employers
- To raise the wages of lowest paid workers
- To reduce unemployment
- To outlaw unfair discrimination

Explanation of any three points completely till economic impact for 6 marks

(d) Some occupations pay much more than other occupations. Why might this happen? [8]

Discussion could include such factors as: [8]

- supply and demand
- membership of trade unions
- strength of trade unions
- public/private sector distinction
- training
- skill levels
- productivity (MRP is not on the syllabus)
- proportion of labour costs to total costs
- location
- danger/risk.

An answer which makes no explicit reference to the demand for and supply of labour can gain no more than 6 marks.

Q4. People hire out their services as labour in return for wages and other earnings. Some people also invest in companies and earn dividends from profits, while others invest in savings and other investment schemes and earn interest on their money.

(a) Define the term 'disposable income'. [2]

The income a person has left after income related taxes and charges have been deducted is called disposable income.  $Y_d = Y - T$

(b) What might be the result of a general increase in the level of consumer spending in an economy? [4]

Should explain how an increase in spending can lead to extra income for others, increased employment, increased tax revenue for government, possible effects on balance of payments. (Explanation will be in general terms – multiplier is not on syllabus.) A positive or negative approach can be taken. [4]

(c) What might determine why one person saves a higher proportion of income and spends a lower proportion than another person? [6]

Explanation of such factors as: [6]

- level of income/wealth
- age
- family size and commitments
- rates of interest
- availability of/knowledge about savings schemes
- confidence in banking system
- personal needs/lifestyle
- health care
- education
- future expectations.

A maximum of 3 marks if only one factor is covered. [6]

(d) Analyse why some individuals are more likely to borrow money than others.

Possible reasons:

some individuals run into financial difficulties

some individuals are spending 'beyond their means'

some individuals may be more aware of what is available from financial institutions

some individuals may be better able to pay the money back

some individuals may be able to provide more security

some individuals may have a need of money for a very short period of time, e.g. until the next pay day

some individuals may have a greater need for something, e.g. a car or a holiday and borrow for the medium term to pay for it

some individuals may wish to buy a house and may borrow for a long period of time, e.g. a mortgage to purchase a house which is often for 25 years.

Descriptive answers about borrowing which fail to discuss why some people have a greater need to borrow and/or a greater ability to pay back the money can gain no more than 5 marks.

[8]

Q5. A lack of electricity regularly results in power failure in the Karachi. The daily gap between supply and demand may increase if the Karachi's economy continues to grow. The Government is planning to build more power stations but there is a risk that the social costs of operating power stations may be greater than the social benefits.

(a) Define the terms economic use of resources. [2]

Economic use of resources will raise economic welfare because the social benefits created by that use will be greater than its social cost.

(b) Some economic writers suggest that a country should conserve its resources. What do they mean by this? [4]

Comment on the idea of keeping some resources for future use, of immediate consumption and growth against reduced growth now, but increased availability of resources in the future. [4]

(c) Explain why pollution is an example of market failure. [6]

Up to 1 marks for defining market failure – where the market forces of demand and supply fail to achieve efficiency.

1 mark for recognising that pollution is an external cost/harmful impact on third parties.

1 mark for mentioning that market forces do not take into account external costs.

1 mark social costs will exceed private costs.

1 mark for mentioning that market prices do not reflect social costs/are too low.

1 mark for output will be too high.

(d) Discuss whether the social costs of operating power stations are likely to be greater than the social benefits. [8]

Either Social costs = private costs + external costs

or social benefits = private benefits + external benefits (1)

Up to 3 marks for explaining social costs:

- private costs are costs to producers/consumers (1) examples: labour costs, rent, insurance (up to 2)
- external costs are harmful effects on third parties/social costs minus private costs (1) examples: air pollution, noise pollution, risk of accidents, fall in price of nearby houses (up to 2)

Up to 3 marks for explaining social benefits:

- private benefits are benefits to producers/consumers (1) examples: revenue, satisfaction gained from consuming the fuel generated, reduction in risk of power outages (up to 2)
- external benefits are beneficial effects on third parties/social benefits minus private benefits (1) examples: rise in employment in the area, improved transport links in the area (up to 2)

Up to 3 marks for coming to a conclusion e.g.:

- may be influenced by whether the power stations are run by the state or the private sector (1) state sector may be more inclined to base decisions on social costs and benefits (1)
- may be influenced by the government policy measures (1) designed to reduce market failure (1) external costs may be minimised by e.g. taxes, laws (1)
- may be influenced by the age of the equipment used (1) old equipment may be more likely to cause external costs (1)
- private costs are likely to be very high for a power station (1) because of the large and expensive capital equipment involved (1)



Q6. Some workers work long hours but earn little because the rate they receive for each hour worked is very low.

(a) Why do you think a worker would be prepared to work for very low wages? [4]

Might not be able to get another job, many low paid jobs are unskilled – worker might not be trained to do skilled job: might choose to work part-time and do not mind low pay; might view the job as a temporary measure until a better job is available; might not know of alternative jobs due to lack of information; might be limited by location of work; might be limited in other jobs by age; might work in the informal economy and does not declare earnings for tax. [4]

(b) What reasons might make a worker decide to move to another job at the same rate of pay? [6]

Occupational and geographical factors include better conditions, better prospects, location/shorter journey to work, can live in preferred area, shorter hours, size of company, fringe benefits – subsidised meals, health scheme, leisure activities. [6]

(c) Some workers belong to a trade union. Explain how membership of a trade union might be beneficial to a worker. [2]

Unions can help in negotiations of wage disputes, provide social amenities, provide legal help, provide protection for worker. [2]

(d) An older skilled worker's pattern of spending and saving is likely to be different from that of a younger unskilled worker. Discuss why. [8]

Can discuss the relative expenditure of older skilled and younger unskilled in terms of likely commitments, long-term debt, level of existing savings, likely absolute level of income both with reference to age and to skill. [8]

**Q7.** A government decides to increase the number of jobs in both public as well in private sector, leading to an increase in the demand of labour.

(a) Consider whether employees working in the private sector and in the public sector are likely to receive different earnings. [4]

There may be fiscal restraint in the public sector (1) with a government reluctant to increase taxes to pay for salaries (1).

Private sector employees, on the other hand, will be financed out of revenues (1) and so there will be less restrictions than in the public sector (1)

Credit answers that state it is the other way round as this may be the case in some countries. Max 2 marks for descriptive answers with no attempt to apply economics.

(b) Describe why the earnings of employees can change over a period of time. [6]

1 mark for identification plus 1 mark for development for any three of the following ways explaining why earnings may rise or fall:

- Low starting salary
- Salary rises with experience
- Salary rises with qualifications
- Salary rises with promotion/greater responsibility
- Salary rises with inflation awards
- Changes in demand
- Changes in supply
- Changes from part-time to full-time and vice-versa

(c) Discuss whether highly-paid employees are likely to spend more and borrow more than less well-paid employees. [8]

Up to 4 marks for why they might:

Up to 3 marks each for explaining that highly paid employees:

have greater ability to spend (1), likely to spend more in total (1), may feel more confident about the future and so may spend more (1)

may borrow more as banks may be more willing to lend to them (1) as they will be relatively confident about being repaid (1), they may be likely to borrow to e.g. buy a house, go on an expensive foreign holiday (1)

Up to 4 marks for why they might not:

Up to 3 marks each for explaining

may spend less as a proportion (1) as may save more of their income (1), their

promotion prospects may be less than some of the lower paid employees (1)

may borrow less due to less need for finance to buy basic necessities (1), may have

former savings they can draw on (1), may live in richer households/may be older and

have less need to borrow to e.g. buy a house or pay for children's education (1)

other factors than income influence decisions to borrow (1) e.g. confidence in the

economy/job security (1), rates of interest on loans and savings (1)

it depends on age of employee (1) e.g. older employee may spend less/save more for

retirement etc. (1), less family commitments (1)

Maximum of 3 marks for a list or list-like answer

(d) Explain two influences on the amount people spend.

1 mark for each of two influences identified, e.g.:

- income
- confidence
- wealth
- interest rate
- accept influences on the amount people spend on a particular product, e.g. price, age, tastes, taxes, etc.

1 mark for each of two explanations, e.g.:

- people with higher income have a greater ability to spend
- people are likely to spend more if they are confident about the future
- an increase in the value of people's wealth increases the ability to spend
- a rise in the rate of interest is likely to reduce spending as borrowing will be more expensive and borrowing will be cheaper.
- an explanation of how a change in the price of a good or related good, age, tastes or taxes will affect spending on a good