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Answers

Exam-style questions

Questions on UK pay

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This resource provides answers to the questions posed in the Exam-Style Questions column, in the April 2024 issue of ECONOMIC REVIEW.

Question 1

Using Table 1, calculate the ratio of weekly pay of managers, directors and senior officials to the weekly pay of caring, leisure and other services in October to December 2022. Give your answer to two decimal places. (2 marks)

Answer

$1,046/417 = 2.508$

- Answer = 2.51 (2dp) or 2.51:1
- 1 mark for correct answer not rounded to 2dp
- 1 mark for correct method but incorrect final answer

Question 2

Explain how the data in Table 1 show that wage differentials in the UK may have increased between 2002 and 2022. (4 marks)

Answer

Relevant points include:

- Increased differences in pay between various categories of occupation, e.g. the difference between the highest and lowest paid categories was £374 per week in 2002, but £629 in 2022, an increase of £255.
- The lowest paid category weekly wage grew more slowly than the average full-time wage (70.9% versus 75.65%).
- Relative changes, e.g. ratio of managers, directors and senior officials to skilled trades has risen from 1.74 (2dp) in 2002, to 1.85 (2dp) in 2022.
- Counterpoints, e.g. the ratio of highest to lowest paid categories has fallen slightly over the time period.

Question 3

With the help of a diagram, explain why a company director may earn more than a social-care worker. (9 marks)

Answer

- Definitions, e.g. of wage rate, marginal revenue productivity.
- Reasons for differences in demand for labour between the two occupations, e.g. productivity, derived demand, elasticity of demand.
- Reasons for differences in supply of labour between the two occupations, e.g. length of training period, differences in monetary and non-monetary factors, elasticity of supply.
- Reference to data in Table 1.
- Use of relevant diagram, e.g. differences in demand for labour and/or supply of labour.

Question 4

Evaluate the view that the government should intervene to reduce wage differentials in the UK. (25 marks)

Answer

Issues for consideration:

- understanding of wage differentials
- methods of intervention
- reference to Table 1

Arguments for intervention:

- issues of fairness and equity — wage differentials too great
- Lorenz curves and Gini coefficient
- problems of low wages and relative poverty
- excessive influence of monopsonies or trade unions
- negative wage discrimination

Arguments against intervention:

- demand and supply conditions allow people to earn the wage they 'deserve'
- trickle-down arguments and positive incentives created by differentials
- intervention can lead to market distortions and government failure
- evaluation of specific policies, e.g. national minimum wage, wage caps