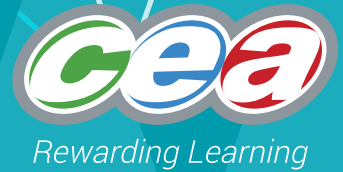


FACTFILE: GCSE ECONOMICS

UNIT 3.2 LABOUR MARKET



Wages

Learning Outcomes

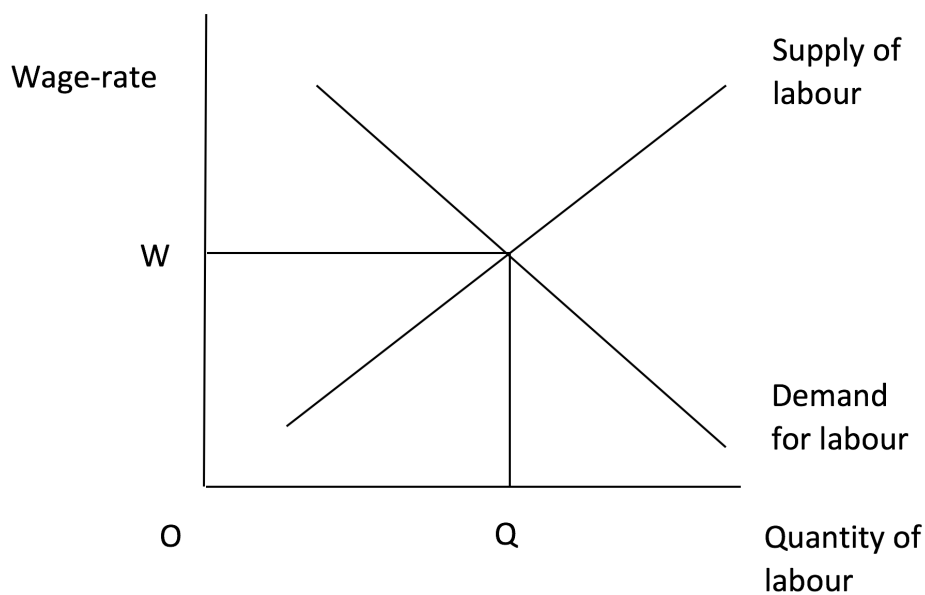
Students should be able to:

- demonstrate understanding of wage determination using simple demand and supply analysis;
- analyse differences in wage rates.

How wages are determined

The way in which the wages for the labour market as a whole are determined is similar to that of any product. Wages are the price of labour. The demand and supply of labour interact to create the equilibrium. This can be illustrated by a demand and supply diagram as in Figure 1.

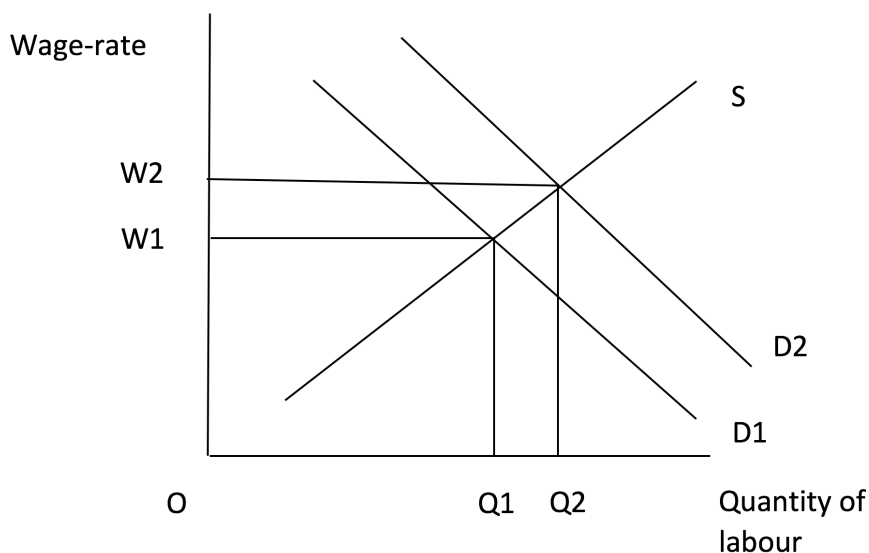
Figure 1 – Wage determination



The equilibrium wage-rate is OW .
At this wage-rate OQ labour will be employed

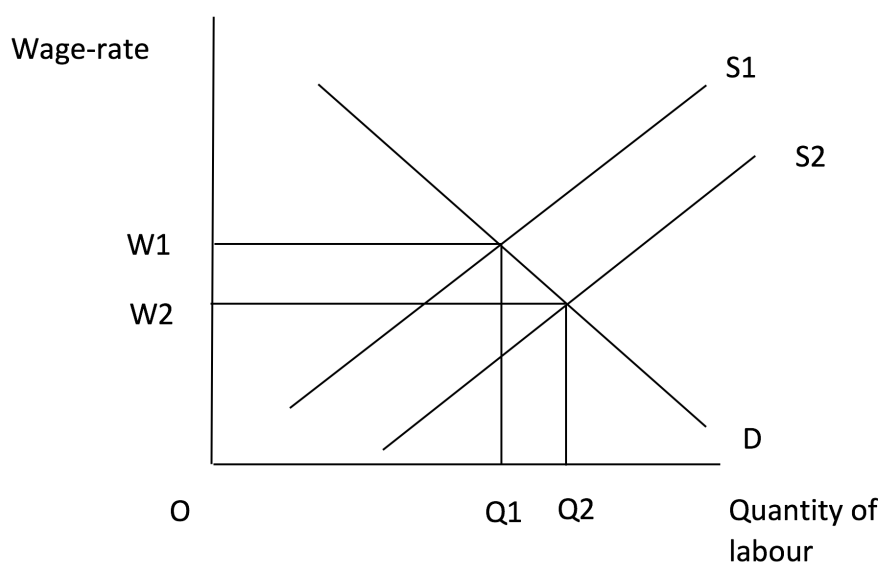
As with the price of a product, changes in the supply or demand for labour will lead to a change in the equilibrium wage-rate and quantity of labour employed. For example, demand or supply may change, as shown in Figures 2 and 3.

Figure 2 – Effect of an increase in the demand for labour, e.g. because of economic growth



The demand curve shifts from D1 to D2.
The equilibrium wage-rate increases from OW1 to OW2.
The quantity of labour employed increases from OQ1 to OQ2.

Figure 3 – Effect of an increase in the supply of labour, e.g. because of an increase in the retirement age



The supply curve shifts from S1 to S2.
The equilibrium wage-rate falls from OW1 to OW2.
The quantity of labour employed increases from OQ1 to OQ2.

Activity 1 – Changes in the labour market

Draw diagrams to show the effect on the equilibrium wage-rate and quantity of labour employed when there is:

- a) a decrease in demand for labour e.g. because of recession.
- b) a decrease in the supply of labour e.g. because of an increase in the school-leaving age.

Activity 2 – Wage Determination

Make a list of factors which might affect the demand and supply for labour. You could put them in a simple table as shown below:

Table 1 – Demand and supply for labour

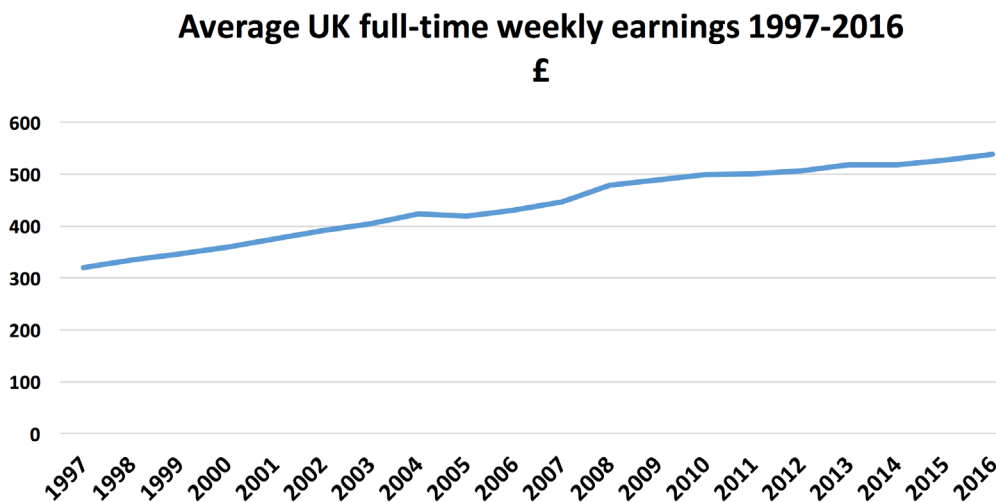
Demand for labour	Supply of labour
Economic Growth <i>plus explanation, illustrative example(s)</i>	Increase in retirement age <i>plus explanation, illustrative example(s)</i>
etc.	etc.

How much do UK workers earn?

Earnings by full-time workers have risen almost continuously in the last 20 years, as can be seen in Figure 4.

The rise in earnings was 68% but it must be remembered that prices rose by approximately 43% during this time. **Real earnings** (after allowing for inflation) rose by 17%.

Figure 4 – UK wages 1997-2016



Source: ONS

Differences in wage rates

The examples on page 3 refer to wage-rates in the economy as a whole. Most discussion of wage-rates, however, is about differences in earnings between different types of employees.

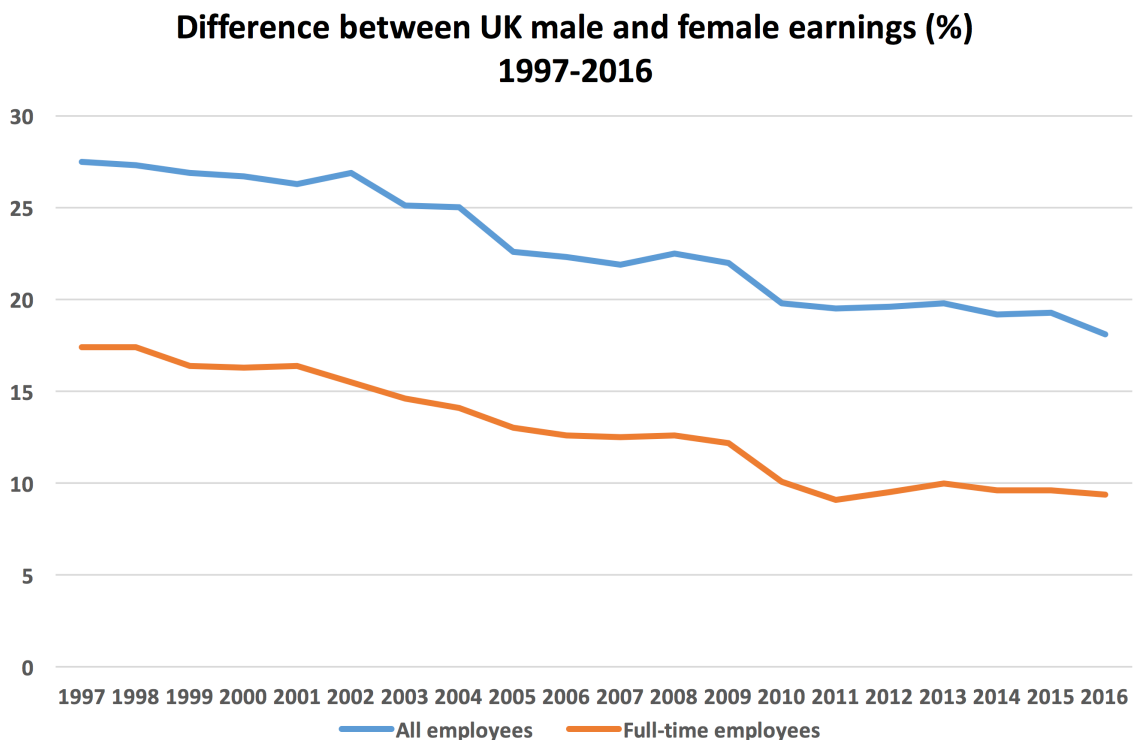
Male and female employees

Men have traditionally earned more than women, although this has changed significantly in recent years, as can be seen from Figure 5. Full-time employment means more than 30 hours per week.

It is noticeable that the difference between male and female earnings is much lower for full-time than part-time employees. Reasons for this might include the fact that compared to part-time employees full-time workers tend to be more;

- highly-qualified and skilled
- likely to be in larger organisations
- likely to be in trade unions or professional associations.

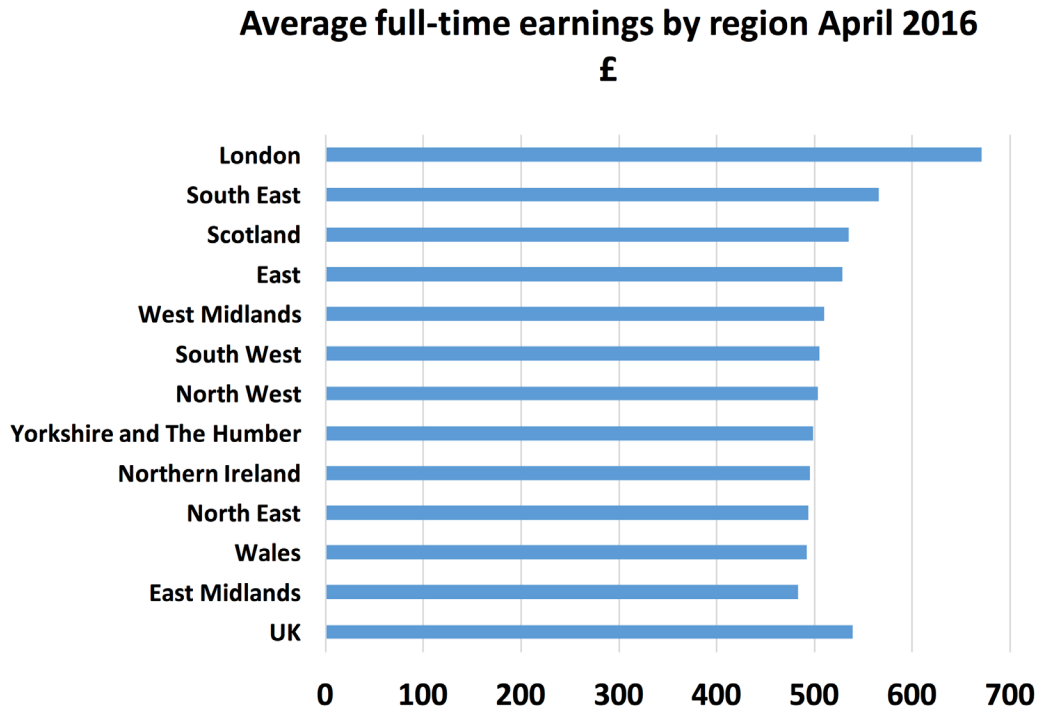
Figure 5 – The gender gap – Male earnings as a percentage of female earnings 1997–2016



Source: ONS

Regional differences

Figure 6 – differences in UK regional earnings



Source: ONS

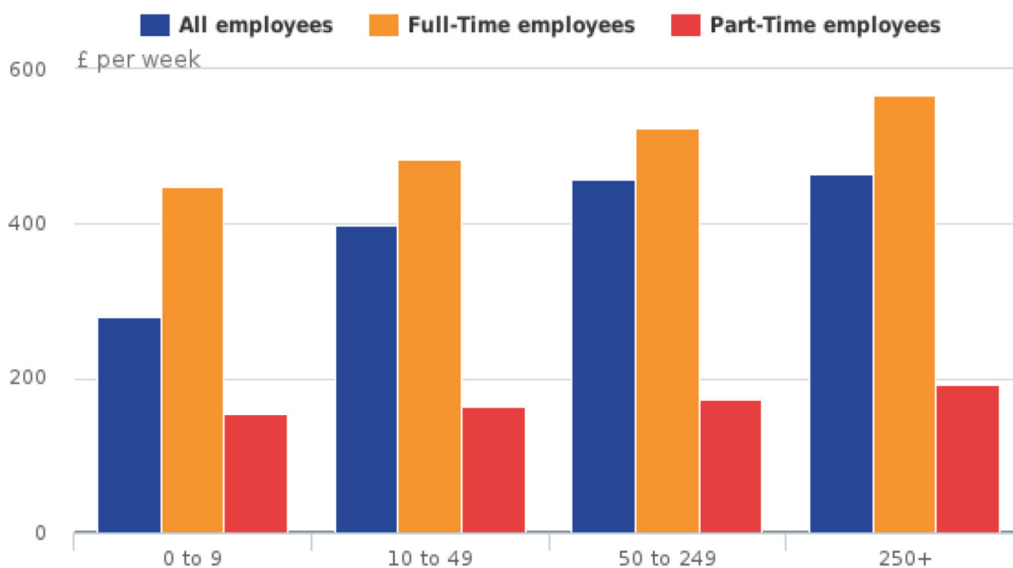
Activity 3 – Regional wage differences

Explain **TWO** reasons why employees in some regions may earn more than those in others.

Size of business

As can be seen from Figure 7 employees tend to earn more the bigger the size of their employer’s business.

Figure 7 – Average earnings by size of business



Source: ONS

Activity 4 – Wages and business size

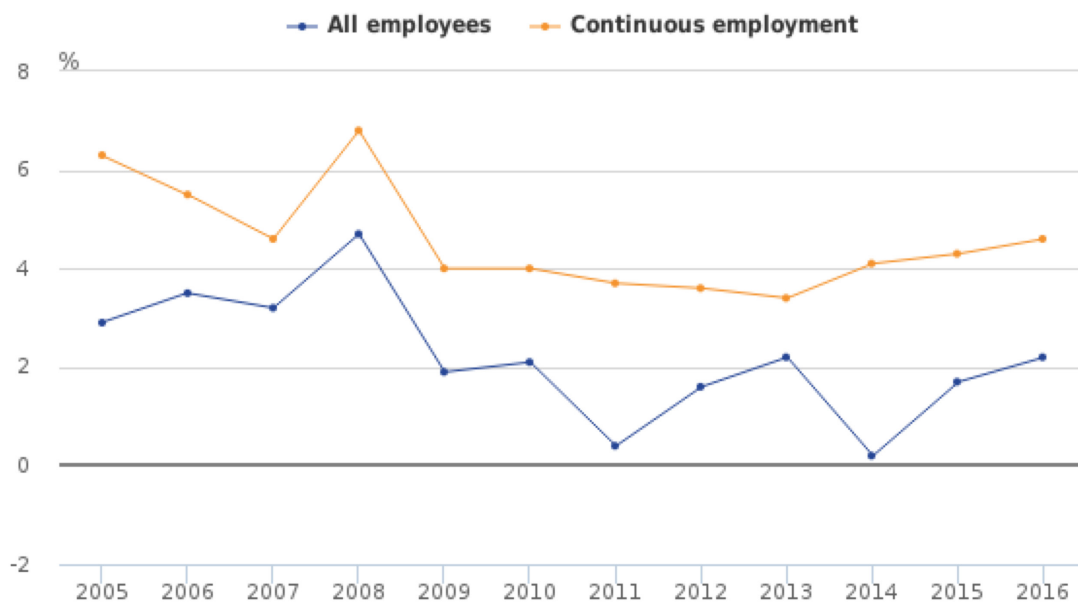
Explain TWO reasons why wages tend to be higher in large businesses than small businesses.

'Long-term' and short-term employees

As can be seen from Figure 8 employees who are in regular (**continuous**) employment (are much more able to protect and increase their earnings than those in temporary employment such as fixed-term, 'casual' and zero-hours contracts.

Continuous employment refers to workers who have been or are expected to be with their current employer for more than a year.

Figure 8 – Changes in earnings – continuous employees compared to whole workforces 2005–16



Source: ONS

Activity 5 – Temporary Employment

Explain what is meant by employment contracts which are:

- Fixed-term
- Casual
- Zero-hours

Why might workers on these types of contracts find it difficult to get better wages?

Qualifications

It is possible to be a high earner with few or no qualifications. Examples include Simon Cowell, Alan Sugar and Richard Branson, who all left school without A-levels. Similarly qualifications do not guarantee a high income. According to the Office for National Statistics (ONS) 20% of graduates earned less than £9.92 per hour in 2016, compared to the national average of £13.39.

Generally, however, the level of a person's qualifications do have a significant effect upon their earnings. An employee with no formal qualifications will tend to earn only the minimum national wage. Qualifications increase this, as can be seen by Table 2.

Table 2 – Effect of qualifications on earnings

Level of qualification	Earnings compared to minimum national wage
None	0
5 GCSE A*–C or equivalent	+20%
3 A-Level/BTEC Level 3	+38%
University degree	+85%

Occupation

The type of job an employee and the industry that they work in can have a significant effect upon their earnings, as shown in Figures 9 and 10.

Figure 9 – Earnings by type of job

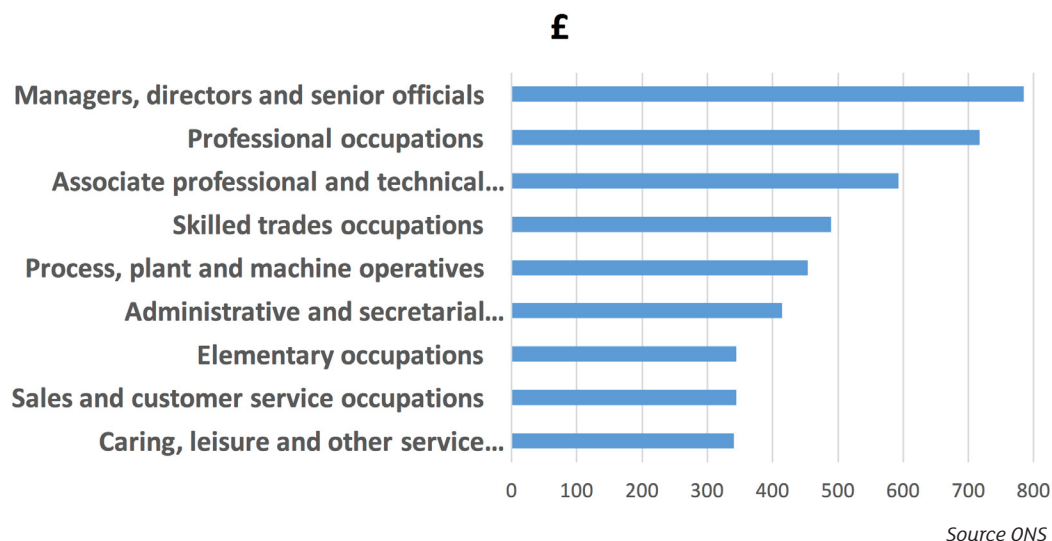
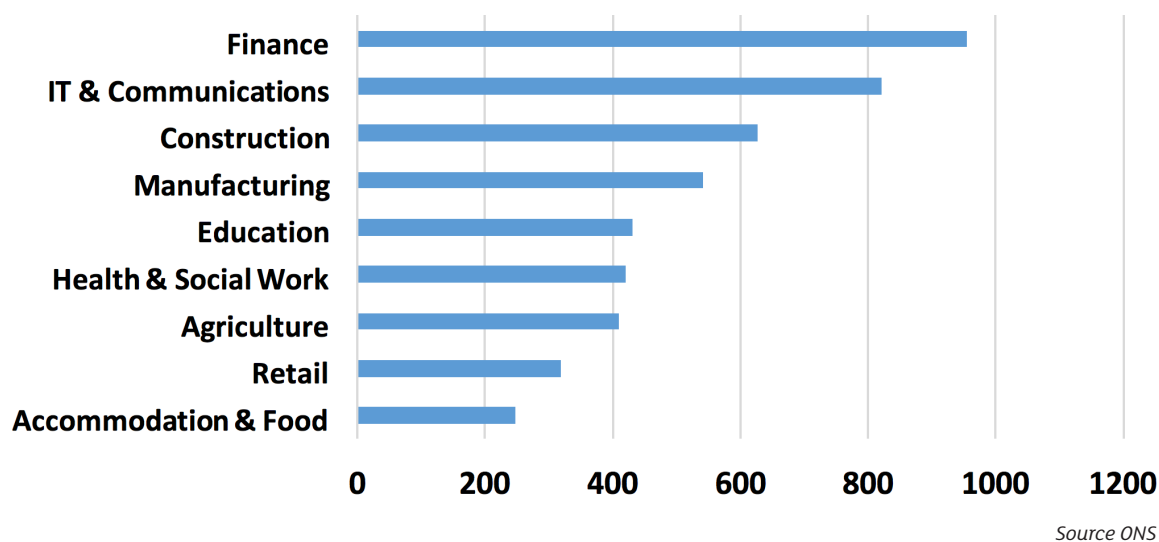


Figure 10 – Weekly earnings in selected industries October 2016

Average weekly earnings by industry October 2016 (£)



Activity 6 – Factors affecting wages

Make a list of factors which may affect wages, including illustrative examples. You could use a table such as that below.

The key point to remember is that wages are the price of labour, as explained on page 1. Your explanation should therefore refer to demand and supply. For example graduates are paid more than workers with lower qualifications because they are in lower supply.

Table 3 – Factors affecting wages

Factor	Explanation	Illustrative examples

