

**LRN International AS/A Level: Economics
(7141)**



Paper 2: Economics
(2 hours)

May/June 2024
Marking Scheme

Q1a) Explain the likely impact of the minimum wage increase on income distribution in the UK. (4 marks)

Criteria: Understanding of income distribution concepts, explanation of likely impacts, clarity, and relevance.		
Mark Band	Descriptor	Example
1 marks	Limited understanding of income distribution; vague or superficial explanation of the impact.	"The minimum wage will help people earn more money."
2 mark	Basic explanation with some reference to income inequality or redistribution but lacks depth or specific examples.	"The minimum wage could reduce income inequality by increasing earnings for low-paid workers."
3 marks	Clear and accurate explanation with good understanding of the concept of income distribution and relevant examples.	"The minimum wage will reduce income inequality by increasing earnings for the lowest-paid workers, narrowing the income gap between lower and middle-income groups."
4 marks	Comprehensive explanation with detailed understanding, reference to relevant economic concepts (e.g., Gini coefficient), and examples or scenarios.	"Raising the minimum wage is likely to improve income distribution by reducing poverty and narrowing income gaps. It will directly benefit low-income workers and could lead to higher disposable incomes for these groups, though its effect on overall inequality may depend on enforcement and inflationary impacts."

Q2a) Analyse how the minimum wage hike could affect small businesses compared to large corporations. (6 marks)

Criteria: Analytical depth, comparison of impacts on small and large businesses, use of examples, and clarity.		
Mark Band	Descriptor	Example
1-2 marks	Limited analysis; mentions small and large businesses but without clear comparison or depth.	"Small businesses will struggle more than large businesses."

3-4 marks	Reasonable analysis comparing small and large businesses, highlighting operational costs or adaptability but with limited examples.	"Small businesses may face higher costs because they often have lower profit margins, while large corporations may absorb costs more easily due to economies of scale."
5 marks	Clear and well-structured analysis, considering factors like profit margins, economies of scale, and industry-specific impacts, with examples..	"Small businesses, such as local retailers or cafes, may struggle to absorb increased wages due to tight margins, potentially leading to staff cuts or price increases. Larger corporations, benefiting from greater resources and economies of scale, may adapt more efficiently by spreading costs across their operations."
6 marks	In-depth and balanced analysis with strong examples and insights into varied impacts across sectors.	"The wage hike will disproportionately affect small businesses due to their limited financial resilience, possibly leading to layoffs or closures. Larger corporations, such as multinational retailers, can offset higher labour costs through automation, higher prices, or cost efficiencies, reinforcing competitive disparities between the two."

Q3a) Discuss the potential trade-offs involved in the government's decision to raise the minimum wage in terms of unemployment and inflation. (6 marks)

Criteria: Understanding of trade-offs, integration of economic theory, depth of discussion, and relevance.		
Mark Band	Descriptor	Example
1-2 marks	Limited discussion; basic mention of unemployment or inflation without connecting to trade-offs.	"Raising the minimum wage may lead to job losses."
3-4 marks	Adequate discussion of trade-offs, mentioning potential job losses and inflation, but lacks depth or nuance.	"Higher wages could lead to more spending, increasing inflation, but businesses may reduce hiring to manage costs."
5 marks	Detailed discussion linking unemployment and inflation to the wage increase, with examples and use of	"While the wage hike increases consumer spending and potentially boosts demand, it may also lead to higher costs for businesses, resulting in

	economic concepts like the Phillips Curve or cost-push inflation.	cost-push inflation. Some firms may respond by reducing their workforce, increasing unemployment."
6 marks	Comprehensive discussion integrating economic theory, real-world examples, and consideration of short-term vs long-term effects.	"The minimum wage increase balances higher consumer spending against risks of cost-push inflation and unemployment. Firms with tight margins may reduce hiring, particularly in low-skilled sectors, but increased demand could create jobs elsewhere, mitigating unemployment effects."

Q4a) Critically evaluate the role of government regulations and enforcement mechanisms in ensuring compliance with the new minimum wage policy. (8 marks)

Criteria: Understanding of regulations and enforcement, critical evaluation of their effectiveness, depth of argument, and use of examples.		
Mark Band	Descriptor	Example
1-2 marks	Limited understanding of regulations; superficial points with minimal evaluation or relevance.	"The government ensures companies pay the minimum wage."
3-4 marks	Basic evaluation with some understanding of enforcement mechanisms but lacks depth or examples.	"Regulations are important to make sure businesses pay the right wages, but some may not follow the rules."
5-6 marks	Good critical evaluation of regulations and enforcement mechanisms with examples, though the discussion may lack balance or nuance.	"Government inspections and penalties ensure compliance, but challenges like underreporting wages or enforcement costs can reduce effectiveness."
7 marks	Comprehensive evaluation with detailed insights, examples of enforcement mechanisms (e.g., inspections, penalties), and recognition of limitations.	"Regulations backed by regular inspections and heavy fines play a crucial role in ensuring compliance. However, small firms may evade enforcement due to limited oversight, requiring a robust monitoring framework."
8 marks	In-depth and balanced evaluation, considering both strengths and weaknesses of regulations, supported by examples and relevant theories.	"While government regulations and mechanisms such as fines and audits ensure compliance, gaps in enforcement (e.g., limited inspectors) allow some businesses to bypass the rules. Transparent reporting systems and anonymous whistleblowing channels could enhance compliance."

Q5a) Analyse the potential effects of the minimum wage hike on the competitiveness of UK businesses in the global market. (8 marks)

Criteria: Analytical depth, understanding of global competitiveness, integration of examples, and clarity.		
Mark Band	Descriptor	Example
1-2 marks	Limited analysis with basic or vague mention of competitiveness.	"The minimum wage could make UK businesses less competitive."
3-4 marks	Reasonable analysis mentioning higher costs but lacking depth or specific examples.	"The minimum wage could increase costs for UK businesses, making exports more expensive."
5-6 marks	Clear and balanced analysis, including both challenges (e.g., higher costs) and opportunities (e.g., improved productivity), with examples.	"Higher wages may increase costs, leading to reduced price competitiveness. However, increased consumer spending in the domestic market could offset some losses."
7 marks	Detailed analysis, incorporating global comparisons and real-world implications, with strong examples and insights.	"While UK businesses face higher production costs, which could reduce export competitiveness, firms focusing on high-value industries may remain competitive globally. Countries with lower wages could attract price-sensitive markets, increasing competition."
8 marks	Comprehensive and nuanced analysis, integrating economic theories (e.g., comparative advantage), examples, and sector-specific impacts.	"The minimum wage hike may challenge labour-intensive sectors like manufacturing due to higher costs but enhance competitiveness in high-value industries by encouraging skill development and productivity gains. Firms focusing on niche markets can leverage quality over price in global trade."

Q6a) Discuss the role of economic theory in different sectors of the UK economy.

(10 marks)

Criteria: Understanding and application of economic theory, relevance to different sectors, depth of discussion, and examples.		
Mark Band	Descriptor	Example
1-3 marks	Limited understanding of economic theory; vague or generic references to sectors.	"Economic theory helps businesses make decisions."
4-6 marks	Basic discussion of economic theories with some application to specific sectors, though lacking depth or balance.	"Supply and demand affect sectors like retail, where prices are based on consumer demand."
7-8 marks	Clear and well-structured discussion with relevant application of theories (e.g., elasticity, economies of scale) to sectors like agriculture, manufacturing, or services.	"In agriculture, price elasticity of demand determines how price changes affect revenues, while economies of scale benefit manufacturing through cost reductions."
9-10 marks	Comprehensive discussion with in-depth understanding and balanced application of multiple economic theories, supported by sector-specific examples.	"The service sector, driven by consumer behaviour and price elasticity, differs from manufacturing, where economies of scale dominate. In agriculture, diminishing marginal returns shape output decisions, reflecting distinct applications of economic principles across sectors."

Q7a) Critically analyse the ethical considerations underlying the government's decision to increase the minimum wage.

(12 marks)

Criteria: Depth of ethical analysis, critical perspective, use of examples, and clarity.		
Mark Band	Descriptor	Example
1-3 marks	Limited ethical analysis; superficial or generic points.	"It's fair to pay people more money."
4-6 marks	Basic ethical discussion mentioning fairness or equity but lacks depth or consideration of conflicting viewpoints.	"Raising the minimum wage is ethical because it helps reduce poverty, but it may hurt small businesses."
7-9 marks	Detailed ethical analysis, considering multiple perspectives (e.g., fairness, impact on businesses), with examples.	"While raising wages promotes equity and reduces exploitation, it may be viewed as unfair to small business

		owners who struggle to absorb costs, highlighting ethical trade-offs."
10-12 marks	Comprehensive and nuanced ethical analysis, integrating real-world implications, diverse perspectives, and examples.	"The ethical justification lies in addressing wage stagnation and poverty, promoting fairness. However, ethical concerns also arise regarding potential job losses in low-skilled sectors, necessitating a balanced approach to policy implementation."

Q8a) Critically evaluate the overall impact of the minimum wage increase on the UK economy and provide recommendations for policymakers based on your analysis.

(16 marks)

Criteria: Comprehensive evaluation, critical thinking, integration of evidence, policy recommendations, and clarity.		
Mark Band	Descriptor	Example
1-4 marks	Limited evaluation with superficial points; little to no recommendations.	"The minimum wage will help workers earn more money."
5-8 marks	Basic evaluation with some critical points but limited evidence or recommendations.	"The minimum wage can increase spending but might cause job losses. Policymakers should consider helping businesses."
9-12 marks	Detailed and balanced evaluation with critical insights and evidence-based recommendations.	"The minimum wage hike boosts consumer spending and reduces inequality but risks inflation and job losses in low-skilled sectors. Policies like tax relief for small businesses could mitigate adverse effects."
13-16 marks	Comprehensive evaluation, integrating economic theories, real-world examples, and well-justified, practical recommendations.	"While the minimum wage increase addresses inequality and stimulates demand, its long-term success depends on mitigating inflationary pressures and unemployment risks. Policymakers should pair the hike with measures like targeted subsidies for small businesses and investment in skills training to enhance productivity and sustain competitiveness."