



GCE AS – **NEW**

B520U20-1



S17-B520U20-1



ECONOMICS – AS component 2
Exploring Economic Issues

MONDAY, 22 MAY 2017 – MORNING

2 hours

B520U201
01

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator and a WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Answer **all** questions.

Use black ink or black ball-point pen.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

Answer all the questions.

1. Low pay remains a problem

The UK introduced its first National Minimum Wage in 1999, which was fixed at £3.60 per hour for adults (over 21 year-olds). By October 2015 it had been raised in stages to £6.70 per hour. However, by 2015 the issue of a minimum wage aimed at benefitting low paid workers had become part of a much wider issue relating to government spending and productivity.

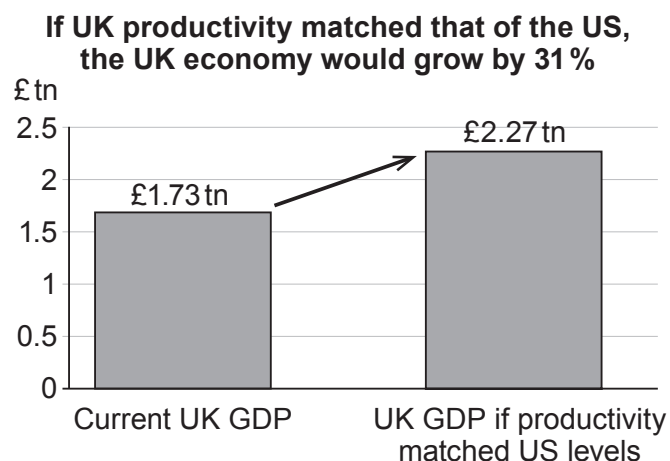
Many low paid workers have felt that the National Minimum Wage did not give them an income high enough to cover basic living costs such as food, fuel and housing. Indeed an independent body, the Living Wage Foundation, calculated a wage that was needed to cover these basic living costs. In 2015, when the National Minimum Wage stood at £6.70 per hour, this wage was estimated to be £8.25 per hour (see Table 1).

Table 1

Year	National Minimum Wage (£)	Living Wage Foundation estimate of the wage needed to cover basic living costs (£)	Difference (£)
2011	6.08	7.20	1.12
2012	6.19	7.45	1.26
2013	6.31	7.65	1.34
2014	6.50	7.85	1.35
2015	6.70	8.25	1.55

By the end of 2015 the employment rate for 16 to 64-year-olds had risen to 73.3% with just over 30 million people in work, the highest since records began. Unemployment in the UK was only 5.7%, much lower than the European Union (EU) average of almost 10% and economic growth in the UK was over 2% per year.

However, Britain's economy had grown mainly in the service sector and many people working in this sector are employed in low-paid jobs such as cleaning, care work and retail. These are also areas of the economy which are labour intensive, with low profit margins and facing a very competitive environment. Wages in these and other sectors have also been damaged by the UK's poor productivity levels and the inward migration of many people of working age from the EU.



25 The low pay issue in the UK became complicated further in 2015-16 by the government's need to reduce its budget (fiscal) deficit. Since 1999, successive governments have given tax credits to the low paid, especially those with children. These tax credits topped up their incomes but the cost to the government had reached £30 billion in 2015 compared to just £1 billion in 1999. The government proposed to reduce the amount it paid out in tax credits by over £4 billion but this would have left many low paid workers significantly worse off.

30 The government believed that some employers had been using tax credits as an excuse for paying low wages to their workers. As a result, and in order to partially compensate for the loss of tax credit income, the government created their own National Living Wage which was to start from April 2016 at £7.20 per hour rising to £9 per hour by 2020.

35 John Cridland, Director-General of the CBI, Britain's leading employers' organisation, said it was a "big ask" for firms that employed large numbers of low-paid staff to raise wages by 5% a year to £9 an hour by 2020. He described the government's "National Living Wage" as a risk and warned it would speed up the replacement of workers with technology if businesses found it too expensive. The TUC, which represents trade unions, welcomed the National Living Wage but pointed out that it only applied to over 25-year-olds and said: "the rate set for the National Minimum Wage for the under-25s must rise sharply in the next review if discrimination is to be avoided."

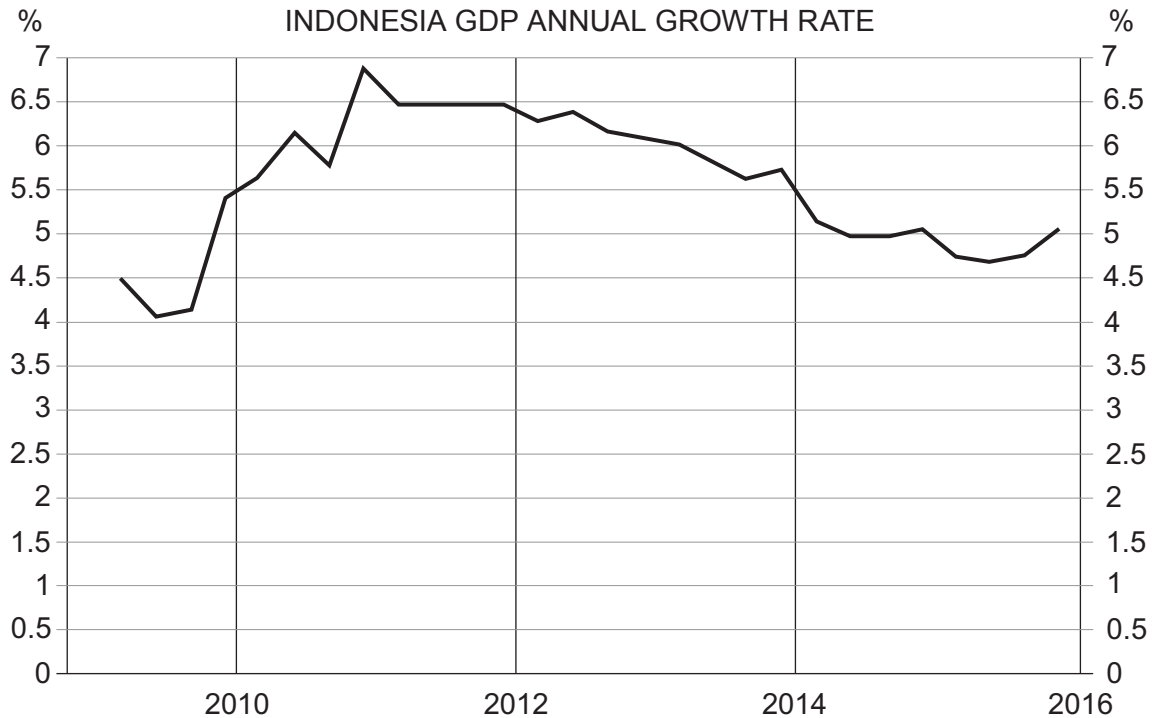
40 Although this new National Living Wage, together with a rise in income tax allowances, will benefit the low paid, the reduction in tax credits would have left 3 million workers worse off. The Chancellor of the Exchequer George Osborne said that he wanted Britain to become 'a high wage, low tax, low welfare economy' but that to achieve this in the long term would require a significant improvement in the UK's poor levels of productivity. In December 2015 under enormous political pressure the Chancellor abandoned his changes to tax credits.

- (a) (i) Calculate the percentage increase in the government's National Living Wage between April 2016 and 2020 (line 30). [1]
- (ii) With reference to Table 1 and using 2011 as the base year, calculate an index for the National Minimum Wage in 2015. [2]
- (b) With the aid of the data, outline why wages might be low in 'cleaning, care work and retail' (line 17). [6]
- (c) Why might the use of tax credits encourage employers to pay low wages to their staff? [3]
- (d) Using a diagram, and with reference to the data, discuss the likely effects of a further increase in migrants from the European Union on wages in the UK. [8]
- (e) Using the data and with the aid of a diagram, assess the likely impact of the introduction of the Government's National Living Wage. [10]
- (f) Evaluate government policies that can be introduced in an attempt to raise productivity in the UK. [10]

2. Rising unemployment piles up problems for Indonesian President

Indonesian companies are cutting jobs as they face the weakest economic growth in six years, adding to the troubles facing President Joko Widodo, who was elected last year on promises to create an economic recovery.

5 Diagram 1



Source: www.tradingeconomics.com : statistics indonesia

Government data might suggest no cause for alarm – unemployment was 5.81% in February, up only slightly from 5.70% a year earlier – but the official numbers are notoriously unreliable and young people are being hit hard; the International Labour Organization estimated the youth jobless rate was more than 20% in 2013, and economists believe it is higher now.

10 About a third of the workforce is aged 15 to 29. Such a young population could give a real boost to the Indonesian economy, the sort of boost that China and South Korea enjoyed a generation ago – but only if there are jobs for the 2 million people joining the workforce each year.

JOBLESS IN INDONESIA

15 When he took office eight months ago, President Widodo said he would pour billions of dollars into infrastructure and support growth in manufacturing.

But the promised spending on roads, power plants and ports has not happened, largely because of administrative hold-ups and land disputes, and a shortage of skilled labour is holding back growth in value-added industries such as electronics and computer games.

20 Meanwhile, labour-intensive industries such as textiles have been hit by the Indonesian currency's (the rupiah) fall to a 17-year low, which has raised the cost of imported raw materials. Indonesia's persistent current account deficit, slow GDP growth and a slump in prices for commodities like coal and palm oil have made the rupiah the worst-performing currency in Asia this year. Consequently, businesses are looking to increase productivity which is adding to unemployment in the short run.

25 Unemployment in turn is hitting consumption, which makes up more than half of Indonesia's aggregate demand. Car sales in May 2015 fell 18.4% from a year earlier, the ninth decline in a row. Arif Budimanta, adviser to the Finance Minister, said the government was introducing measures such as big cuts in interest rates for small businesses and removing tax on luxury goods to help stimulate consumption.

30 The economic slowdown is also affecting higher paid jobs, including those in financial services. As a result, the number of high skilled foreigners working in Indonesia dropped by 20% last year as they relocated to Western countries with better opportunities.

FREE TRADE

35 In November 2015 Indonesia joined 9 other countries in signing an agreement to create even closer economic and social links with nearby economies in the hope that this will stimulate investment and growth. Although many tariffs were eliminated between these countries long ago, the new agreement seeks to create genuine free trade in politically sensitive sectors such as agriculture, cars and steel. This increase in competition could put further pressure on Indonesia's struggling economy.

Adapted from: <http://www.reuters.com/article/indonesia-unemployment>

- (a) With reference to Diagram 1, describe what happened to Indonesian GDP between 2010 and 2015. [3]
- (b) Using a supply and demand diagram, explain one reason for the rupiah falling to a 17-year low (lines 19-20). [5]
- (c) With reference to the data, explain the factors that might have led to increased unemployment in Indonesia. [6]
- (d) Using an AD/AS diagram, discuss whether 'removing tax on luxury goods' will be likely to increase consumption (lines 28-29). [8]
- (e) Discuss the case for and against membership of free trade agreements such as the one described in lines 34-39. [8]
- (f) Discuss whether the factors outlined in the article are likely to increase or reduce the rate of growth of Indonesia's long run aggregate supply over the next few years. [10]

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