



A level

Economics

Specification (7136)

Paper 3 Economic principles and issues

Specimen Paper 2015

Source booklet

The National Minimum Wage (NMW) after 15 years

- **Extract A:** The role of the National Minimum Wage
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The National Minimum Wage after 15 years

Extract A: The role of the National Minimum Wage

The purpose of the NMW is to provide a wage floor, in order to protect low-paid workers against exploitation, without causing job losses. Many economists have been wary of statutory minimum wages: unless they raise the price of labour at the bottom of the wage distribution above what it would otherwise be they are pointless; but if they raise it then the fear is that they will curb demand for labour, and curb it to the particular detriment of the least skilled.	1
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However, others have pointed out that labour markets are not perfectly competitive. There are costs and risks for workers who want to change jobs, and some employers enjoy a degree of monopsony power in local labour markets. As a result workers may be paid at levels below the market-clearing rate. The implication is that a statutory wage floor may raise the pay of the lowest earners without adverse employment effects. The challenge is to set the level as high as possible short of causing people to lose jobs.	10

Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Extract B: The National Minimum Wage to rise to £6.50 in October 2014

Will a rise in the National Minimum Wage (NMW) damage the competitiveness of the UK economy? Representatives of businesses in the UK have claimed that the recently announced 3% increase in the National Minimum Wage is 'unwelcome in today's economic climate'. Critics of the increase maintain that 'it is essential that businesses remain competitive and that the above inflation increase in the NMW will add significantly to business costs'. Yet competitiveness is not just about wages, it also, for example, depends on productivity, the exchange rate and innovation.	1
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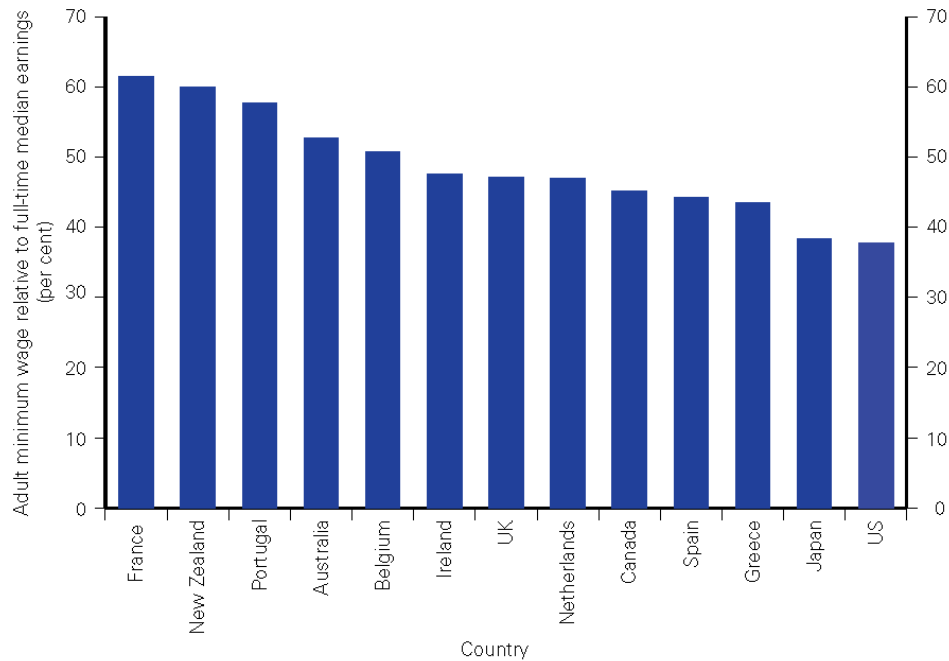
Source: News Reports accessed May 2104

Extract C: International comparison of adult minimum wages by country, December 2013

Country	Minimum wage in UK £s, using purchasing power parity exchange rates
Australia	7.79
France	7.77
Belgium	7.02
Netherlands	6.97
Ireland	6.80
New Zealand	6.35
UK	6.31
Canada	5.89
USA	5.31
Japan	4.80
Spain	3.48
Greece	3.40
Portugal	2.91

Source: Extracted from National Minimum Wage - Low Pay Commission 2014

Adult minimum wages relative to full-time median earnings, by country, 2012



Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Some countries, such as China and India, do not have a single national minimum wage. In China, each province sets its own minimum wage to reflect local conditions. In November the hourly rate in Beijing was equivalent to approximately £1.74, whereas in Hunan it was around £0.93.

International comparisons of productivity, final estimates for 2012

Current price GDP per hour worked

UK = 100

Canada	105
France	132
Germany	131
Italy	111
Japan	89
UK	100
USA	135
G7 average	120

Source: ONS 20 February 2014

Turn over for Extracts D and E

Extract D: Calls for employers to commit to paying the Living Wage as the pay gap widens

The TUC, the Archbishop of Canterbury and Boris Johnson, the Mayor of London, are just a few of those who have called on employers to pay their workers a living wage. The Living Wage is defined as 'the wage that can meet the basic needs to maintain a safe, decent standard of living within the community'. The Living Wage differs from the minimum wage in that the latter is set by law and may fail to provide people with enough income to have a reasonable quality of life. It has been claimed that five million people are paid less than the Living Wage, which is estimated at £8.80 an hour in London and £7.65 elsewhere.	1
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Proponents argue that paying the Living Wage means workers can live with dignity and not just exist. By paying the Living Wage, employers can lift their employees out of poverty, debt, and illness, which will improve family life. Employers benefit because it is easier to recruit and retain staff, productivity increases, and there is a reduction in sickness and absenteeism. Government spending on welfare is also reduced. Everyone is a winner.	10

Source: News Reports accessed May 2104

Extract E: The National Minimum Wage: silver bullet or poisoned chalice?

Since its introduction in 1999, the NMW has increased by 75%, whilst average earnings have risen by 61% and the Retail Price Index by 53%. A new report, published by the Institute of Economic Affairs, argues that the NMW should be abolished for apprentices and under 18-year-olds in the UK to tackle persistently high youth unemployment. The rate for 16 and 17 year olds is due to rise to £3.79 per hour in October 2014 and to £2.73 per hour for apprentices. The authors of the report also believe that setting a single NMW is likely to have adverse effects on private sector employment in the regions. In Wales, for example, the NMW is 70% of median hourly earnings in the private sector, compared to just 42% in London. The report recommends that the minimum wage should be regionalised. When determining the minimum wage for each region, differences in productivity and economic conditions should be taken into consideration.	1
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Source: News Reports accessed May 2104

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Extract A: Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Extract C: Source: Extracted from National Minimum Wage - Low Pay Commission 2014; The Future Path of the National Minimum Wage - Low Pay Commission 2014; ONS 20 February 2014

Extract B, D & E: Source: News Reports accessed May 2104