

Cambridge AS & A Level · Economics 9708 · Notes

Labour market forces and government intervention

A2

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Read first: [Demand and supply curves](#), [Price elasticity of supply](#), [Types of cost, revenue and profit, short-run and long-run production](#)

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What you need to know

This topic has ten learning outcomes:

1. **Derived demand:** firms want workers for what they make, so the demand for labour depends on the demand for the product.
2. **What affects the demand for labour** in a firm or occupation: the wage, productivity, the price of and demand for the product, the cost of machines that could replace workers, other labour costs.
3. **Shifts and movements in demand:** a wage change moves along the demand curve for labour; anything else shifts it.
4. **Marginal revenue product (MRP):** what one more worker adds to revenue, $MRP = MPP \times MR$. Calculate it, and show why the MRP curve is a firm's demand curve for labour.
5. **What affects the supply of labour** to a firm or occupation: wage and non-wage factors.
6. **Shifts and movements in supply:** a wage change moves along the supply curve; non-wage factors, pay elsewhere and the number of qualified people shift it.
7. **Wages in a perfect labour market:** equilibrium wage and employment.
8. **Wages in imperfect labour markets:** the effects of **trade unions**, a **national minimum wage** and a **monopsony** employer.
9. **Wage differentials:** why market forces pay some jobs and workers more than others.
10. **Transfer earnings and economic rent:** define them, and explain what makes each large or small in an occupation.

Understand it

Derived demand and marginal revenue product

A café hires baristas because customers buy coffee; if coffee sales fall, it needs fewer baristas, however good they are. That is **derived demand**.

A profit-maximising firm compares what one more worker adds to revenue with what that worker adds to cost.

- **Marginal physical product (MPP)**: the extra output from one more worker.
- **Marginal revenue product (MRP)**: the extra revenue from that output, $MRP = MPP \times MR$.
- In a **perfectly competitive product market**, $MR = P$, so $MRP = MPP \times P$. In an **imperfect** product market the firm must cut its price to sell more, so MR is below price: use MR.

A workshop sells its product for \$5 a unit in a competitive market:

Workers	Total product	MPP	MRP at \$5
1	24	24	120
2	44	20	100
3	60	16	80
4	72	12	60
5	80	8	40
6	84	4	20

MPP falls because of **diminishing returns**: extra workers share the same machines. At a daily wage of \$60 the workshop hires while each worker adds at least as much revenue as cost: the 4th adds \$60, the 5th only \$40, so it employs **4**. At \$40 it would employ 5. Each wage gives an employment level read off the MRP schedule, so **the MRP curve is the firm's demand curve for labour**.

The general rule: **employ up to where MRP = marginal cost of labour (MCL)**. If the firm can hire any number at the market wage, MCL is the wage, so the rule becomes $MRP = \text{wage}$.

The MRP curve **shifts right** with higher productivity (training, education, more or better machines) or a higher product price or demand, and **left** with the opposite. If the price rises to \$7.50, the 5th worker's MRP becomes $8 \times 7.50 = 60$, so at \$60 the workshop now hires 5. Demand for labour also falls if machines that do the same job get cheaper, or if payroll taxes add to the cost of each worker. A change in the **wage** never shifts the curve.

Elasticity of demand for labour

Demand for labour is **inelastic** (a pay rise costs few jobs) when labour is a **small share of total cost**, when demand for the **product is price inelastic**, when workers are **hard to replace** with machines, and in the **short run**. The opposite makes it elastic. Every wage-raising policy costs more jobs where demand for labour is elastic.

The supply of labour

An individual. A higher wage makes each hour of leisure cost more, so people work more (**substitution effect**), but also makes them richer, so they can afford more leisure (**income effect**). At high wages the income effect may win, giving a **backward-bending** supply curve: hours fall as the wage rises. The area under a person's supply curve up to the hours worked is the least pay that gets them to work those hours.

To a firm or occupation, people compare **net advantages**: **pecuniary** rewards (wages, bonuses) and **non-pecuniary** ones (hours, holidays, job security, safety, conditions, promotion, status, perks such as a subsidised lunch).

- A change in this job's **wage**: a movement along the supply curve.
- Better non-wage factors shift supply **right**; longer compulsory training or worse conditions shift it **left**. A firm that trains its own recruits shifts the supply of labour to itself right.
- Higher wages in **similar jobs elsewhere** shift supply **left**.
- **Population and participation**: migration, ageing, time in education, childcare, benefits.

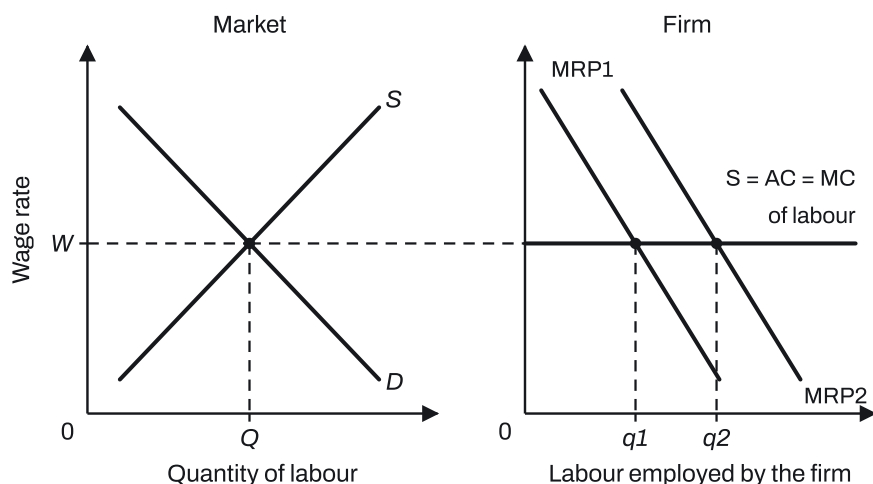
Productivity is a demand factor, not supply: a common multiple-choice trap. If fewer women are available to work, women's wages rise, and firms substitute men, so men's wages rise too.

Elasticity of supply is low when a job needs **specific skills, talent or long training**, when workers are immobile, and in the **short run**.

Migration: workers leaving shift supply left (wages up); workers arriving shift it right (wages down). If migrants' skills **complement** existing workers', they raise those workers' MRP, so demand shifts right too and wages may not fall.

Wages in a perfectly competitive labour market

A **perfect labour market** has many employers and workers, homogeneous labour, perfect knowledge and free movement between jobs.

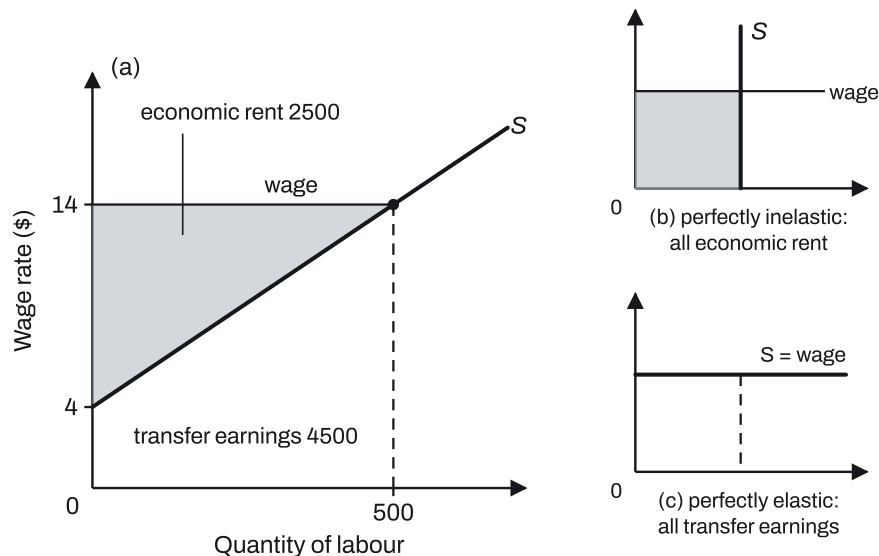


Market demand and supply set the wage W (left). Each firm is a **wage taker** (right): it can hire any number at W , so the supply of labour to the firm is **perfectly elastic**, and that line is also the average and marginal cost of labour. The firm employs $q1$, where $MRP = W$.

If one firm's workers become more productive ($MRP2$), it employs more ($q2$) at the **same** wage. Wages rise only when the **whole market** changes: productivity rising across the industry shifts market demand right, or a labour shortage shifts market supply left, so every firm's horizontal supply line moves up.

Transfer earnings and economic rent

- **Transfer earnings:** the minimum payment needed to keep a factor in its present use: the area **under the supply curve** up to the number employed.
- **Economic rent:** any payment **above** transfer earnings: the area **between the supply curve and the wage**.



In panel (a), supply is $W = 4 + 0.02L$ and 500 workers earn \$14, so pay totals $14 \times 500 = 7000$. Transfer earnings are $4 \times 500 + \frac{1}{2} \times 500 \times 10 = 4500$, so economic rent is $7000 - 4500 = 2500$. The last worker is paid exactly their transfer earnings; every earlier worker would have worked for less, so earns some rent.

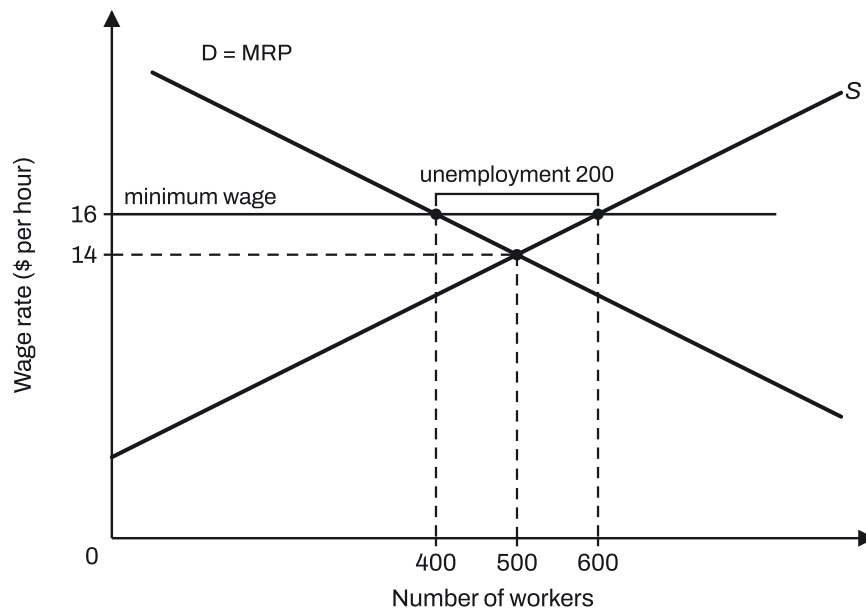
- **Perfectly inelastic supply** (b): the same people work at any pay, so all earnings are rent (a performer with unique talent).
- **Perfectly elastic supply** (c): all earnings are transfer earnings.
- The **less elastic** supply is, the bigger the share of rent; a rise in demand then mostly raises rent.
- Supply is less elastic in the **short run**; as more people qualify, part of the short-run rent becomes transfer earnings.

A small example. A firm needs three technicians. The least each would accept to stay is \$300, \$360 and \$420 a week, so to keep all three it pays each \$420. Transfer earnings total $300 + 360 + 420 = 1080$; pay totals $3 \times 420 = 1260$; economic rent is $1260 - 1080 = 180$, made up of \$120, \$60 and \$0. The third technician is the marginal worker.

The transfer earnings of **enterprise** are **normal profit**; supernormal profit is a form of rent.

Minimum wage in a competitive labour market

A minimum wage at or below the market wage changes nothing. Above it:



Demand is $W = 24 - 0.02L$ and supply $W = 4 + 0.02L$, so equilibrium is \$14 and 500 workers. At a minimum wage of \$16, firms hire 400 (read off MRP): **100 existing workers lose their jobs**. 600 want work, so **100 new entrants** find none. **Unemployment** is $600 - 400 = 200$. Those still employed earn more (more rent), but the wage bill falls from \$7000 to $16 \times 400 = 6400$ because demand here is elastic: employment falls 20% when the wage rises about 14%.

For: higher pay and less poverty for the low paid, more reason to work, less spending on in-work benefits, better morale and productivity (shifting MRP right). **Against:** job losses, worst with elastic demand for labour and a high floor; higher costs, prices and closures for small firms; lost competitiveness; machines replacing workers. It does not cure **structural** unemployment, which comes from mismatched skills.

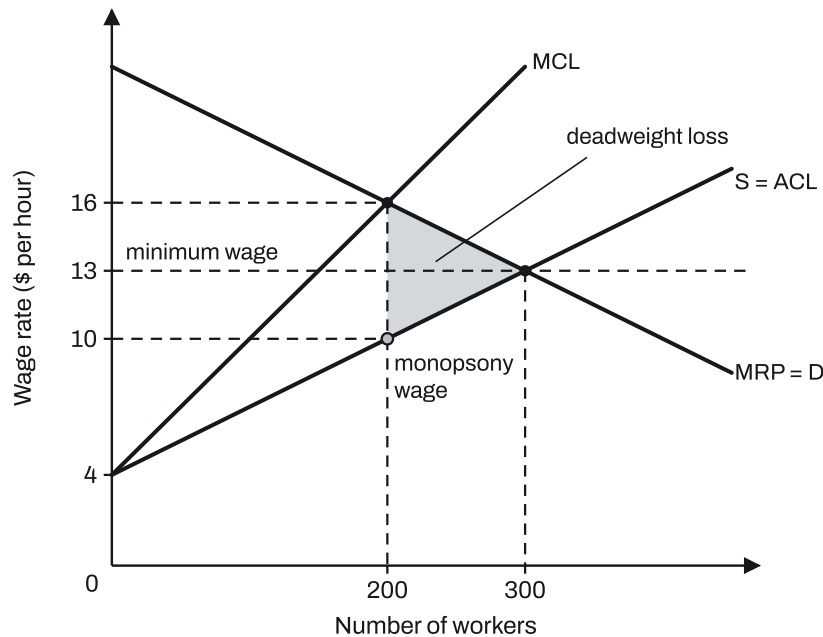
A **maximum wage** below equilibrium (on star performers, say) leads employers to compete with bonuses and perks instead.

Monopsony

A **monopsony** is the only (or dominant) buyer of a type of labour, such as one hospital in a remote town. To hire one more worker it must raise the wage **for everyone**, so:

- the supply curve is the **average cost of labour (ACL)**;
- the **marginal cost of labour (MCL)** lies above it.

For example, 20 workers at \$15 cost \$300; 21 at \$16 cost \$336, so the 21st worker costs \$36.



Supply is $W = 4 + 0.03L$, so the wage bill is $(4 + 0.03L)L$ and $MCL = 4 + 0.06L$. MRP is $W = 22 - 0.03L$.

- **Monopsony:** $MCL = MRP$ gives $4 + 0.06L = 22 - 0.03L$, so $L = 200$. The wage is read off **supply**: $4 + 0.03 \times 200 = 10$. The last worker's MRP is \$16, \$6 more than the wage.
- **Competitive outcome:** supply meets MRP at 300 workers and \$13.

So monopsony means **lower pay and fewer jobs**. The **deadweight loss** is the triangle between MRP and supply from 200 to 300 workers: $\frac{1}{2} \times 100 \times 6 = 300$ a day.

A minimum wage in monopsony makes MCL horizontal at the floor up to the supply curve, because hiring one more no longer raises anyone else's pay:

Minimum wage	Employment	Effect
\$10 or less	200	none
\$11.50	250 (read off supply)	wage and jobs both rise; deadweight loss shrinks
\$13	300	competitive outcome: most jobs, no deadweight loss
\$14.50	250 (read off MRP)	still more jobs than 200, but 100 more want work than are hired
\$16	200	monopsony employment at a higher wage
above \$16	below 200	jobs fall

At \$13 the wage bill rises from \$2000 to $13 \times 300 = 3900$. A floor raises employment as long as it is **below the MRP of the last worker the monopsonist employed** (\$16).

Trade unions

A **trade union** bargains collectively over pay, conditions, hours and jobs.

- **Competitive market:** a wage above equilibrium works like a minimum wage: employment falls along MRP. Restricting entry (long apprenticeships, licensing, a closed shop) shifts supply left, with the same result.
- **Productivity deals:** agreeing to training or new methods shifts MRP right, so wages **and** jobs can rise.
- **Monopsony (bilateral monopoly):** a negotiated wage acts like the minimum wage above, raising pay and jobs; where it settles depends on bargaining strength.

A union is **stronger** when it represents most of the workforce, demand for its labour is inelastic, the employer is profitable and employment is rising; **weaker** with elastic demand, high unemployment, or laws limiting strikes. **Costs:** jobs lost, higher prices, strikes, outsiders shut out. **Benefits:** higher pay, better conditions, a counterweight to monopsony, lower staff turnover, cooperation on training and safety.

Wage differentials

- **Demand:** higher MRP, higher pay. A chief executive's decisions can change revenue by millions; a cleaner's MRP is low.
- **Supply:** rare talent, scarce skills or long training give a small, **inelastic** supply, high pay and much **economic rent**; easy-entry jobs have elastic supply and low pay. Non-pecuniary advantages lower the wage needed; dangerous or unsocial jobs need **compensating differentials**.
- **Imperfections:** monopsony, unions, minimum wages, public-sector pay set by government, **discrimination**, immobility and poor information, and top pay set by boards of peers.

Limits of MRP theory: it assumes profit-maximising firms in perfect markets; one worker's MPP is hard to measure in teams and services; public-sector output often has no price; and pay also depends on bargaining, law and custom.

Government intervention

Besides a minimum wage, governments can subsidise **education and training** (MRP shifts right; more skilled workers narrow skill differentials), raise **net advantages** (tax cuts, rules on hours and safety, though these raise firms' costs), change **union law**, change **immigration controls** (tighter controls cut supply and support wages), award public-sector pay rises **below inflation** to cut **real** wages, or set a **maximum wage**. Against growing monopsony power, the combination most likely to raise wages and jobs is: **stronger unions, tighter immigration controls and a higher minimum wage**.

Key facts and formulas

There is no formula list in the 9708 exam, so everything here is "Learn it".

Formula	Status
$MRP = MPP \times MR$; in a perfectly competitive product market $MRP = MPP \times P$	Learn it
MPP of the n th worker = total product with n workers – total product with $n - 1$	Learn it
Profit-maximising employment: $MRP = MCL$; in a perfect labour market $MCL = ACL = W$, so $MRP = W$	Learn it
Marginal cost of labour = new total wage bill – old total wage bill	Learn it
Monopsony: employ where $MCL = MRP$; pay the wage on the supply (= ACL) curve	Learn it
Linear supply $W = a + bL$ gives $MCL = a + 2bL$	Learn it
Transfer earnings = area under the supply curve up to employment; economic rent = total earnings – transfer earnings	Learn it
One worker: transfer earnings = least pay that keeps them in the job; economic rent = pay – that minimum	Learn it
Unemployment from a wage floor = quantity supplied – quantity demanded at that wage	Learn it
Elasticity of demand for labour = $\frac{\% \text{ change in labour demanded}}{\% \text{ change in the wage}}$	Learn it

How to do it

We tagged 104 questions for this topic, from March 2021 to March 2026 (92 different; 12 are repeats across paper variants): 80 Paper 3 multiple choice and 24 Paper 4 essays and data-response questions. 9 questions (8 of them Paper 4) mix more than one type, so the counts add up to 115.

Question type	Questions
Identify or calculate economic rent and transfer earnings	22
Analyse the effect of a minimum (or maximum) wage, competitive or monopsony market	22
Identify causes of shifts in, and elasticity of, the demand for labour (MRP)	15
Analyse trade union effects on wages and employment	13
Identify factors affecting the supply of labour (shifts, net advantages, shape)	11
Calculate MRP or the marginal cost of labour and find profit-maximising employment	10
Explain and evaluate wage differentials and MRP theory	9

Question type	Questions
Compare wage and employment in perfectly competitive and monopsony labour markets	5
Analyse migration or a structural change in a labour market with a diagram	4
Evaluate government intervention in labour markets	4

1. Identify or calculate economic rent and transfer earnings (22 questions)

Mostly multiple choice, plus 12- and 13-mark essay parts in 2021–2022.

- Definitions:** transfer earnings are the **minimum** to keep the factor in its present use; rent is anything **above**. Reject "the amount needed to make a worker change job" and "MPP × MR".
- One worker:** transfer earnings are the least pay that keeps them, if given; otherwise their next best wage. Rent is pay minus that.
- Diagrams:** shade below supply (transfer earnings) and between supply and the wage (rent). The marginal worker earns only transfer earnings and stays in work.
- Changes:** shade before and after. Rent rises most when demand rises and supply is less elastic. Supply turning **flatter** through the same equilibrium raises transfer earnings and cuts rent.

Variants: the area between short-run and long-run supply curves is rent that becomes transfer earnings in the long run; with an individual's supply curve and a fixed working week, the pay needed is the area under their curve up to those hours; a minimum wage adds rent equal to the rectangle between old and new wage, up to the new employment; enterprise's transfer earnings are normal profit.

Essay (stars versus street cleaners): define both terms; two diagrams (steep supply and high demand for stars, elastic supply and low demand for cleaners) with areas shaded; then evaluate other influences: unions or public-sector pay rules for cleaners, falling demand to watch the sport for stars.

2. Analyse the effect of a minimum (or maximum) wage, competitive or monopsony market (22 questions)

Multiple choice:

- Identify the market: one supply and one demand curve is **competitive**; a supply (average wage) curve with MCL (marginal wage) above it is **monopsony**.
- Competitive:** from the old equilibrium, the gap back to demand is **existing workers made redundant**; the gap on to supply is **new entrants who find no work**.
- Monopsony:** the old wage is on **supply**, below where MCL meets MRP. Read new employment off supply (floor below where supply meets MRP) or off MRP (floor above it). Compare total wages as rectangles. Deadweight loss shrinks to the triangle between MRP and supply from the new employment to where they meet.
- "What **decreases** in monopsony?" Unemployment, as more are hired; wages, rent and transfer earnings rise.

Variants: "not a benefit" is cutting structural unemployment; job losses depend on the **MRP** curve (elasticity of demand for labour); it raises jobs as well as pay in monopsony when set below the last worker's MRP; it helps current workers least when demand for them is elastic; a maximum wage leads to other rewards.

Essays and data response: define the minimum wage and market type; draw the **right** diagram (none, or a competitive one for a monopsony question, caps you at Level 2); analyse wage and employment from it; evaluate with the size of the floor, elasticities of demand for and supply of labour, productivity and morale, small firms and competitiveness, capital substitution, and gains to employers (lower turnover, more effort); conclude on the net effect.

3. Identify causes of shifts in, and elasticity of, the demand for labour (MRP) (15 questions)

1. Does the change alter MPP or MR at every employment level? Then the demand for labour **shifts**. A **wage** change is a movement (the usual wrong option).
2. A productivity rise: demand right, supply unchanged, wage up.
3. Elasticity: use the four factors in "Understand it".

Variants:

- **Policy grids:** tax allowances for capital goods and better education both raise MPP.
- **Less capital per worker in the long run:** MRP shifts left and the wage falls; read employment off the firm's **long-run** demand curve at the lower wage, and it can end up higher.
- **Charts of wages:** compare the values before choosing a cause. Wage **growth** that turns negative means wages are **falling** (a bigger labour force, less demand); growth that is lower but positive means wages still rise, only more slowly. Wages rising year after year point to higher productivity.

4. Analyse trade union effects on wages and employment (13 questions)

Multiple choice: a union wage above equilibrium in a **competitive** market cuts employment; in **monopsony**, a wage between the monopsony wage and the last worker's MRP raises it. Union power is greatest with rising employment, inelastic demand for labour and a large membership. Pay can rise without job losses only if MRP shifts right.

Essays ("a union always raises wages and unemployment"): define a union and its aims; competitive diagram with a wage above equilibrium (excess supply); restricting supply; then the counter-cases (productivity deals, growing product demand, bilateral monopoly); evaluate with elasticities and capital substitution; judge "always". Keep to **unions**, not government minimum wages.

5. Identify factors affecting the supply of labour (shifts, net advantages, shape) (11 questions)

1. Sort the factor: own wage (movement), non-wage factor or pay elsewhere (shift), productivity (demand, not supply).

2. Backward-bending supply: beyond some wage, **fewer** hours as the wage rises.
3. Steeper supply in one market: more specific skills and training.
4. A table comparing two jobs: conclude only what it proves; more holidays, shorter hours and more security mean more non-pecuniary advantages, but not what workers value.

Essay on net advantages: define both pecuniary and **non-pecuniary** parts and link them to a shift of supply; analyse a policy for each (tax cuts or minimum wage; training, rules on hours and conditions); evaluate (the income effect may cut hours, training has an opportunity cost, regulation raises firms' costs).

6. Calculate MRP or the marginal cost of labour and find profit-maximising employment (10 questions)

1. $MRP = MPP \times MR$ (or $\times P$ in perfect competition), with **marginal**, not average, product.
2. MCL when everyone's pay rises: new wage bill minus old wage bill, **not** just the new workers' pay.
3. Hire while $MRP \geq MCL$; stop where they are equal.
4. **Wage from a graph** (perfect labour market): $W = MPP \times P$ at the hours used. With average and marginal product curves against the wage, employ where the **marginal** product curve cuts the wage line on its falling part.

7. Explain and evaluate wage differentials and MRP theory (9 questions)

Paper 4 essays and one multiple-choice question.

1. **Theory:** demand is $MRP = MPP \times P$; supply depends on skills, training, ability, non-pecuniary factors and elasticity. Draw both labour markets.
2. **Apply:** high MRP and inelastic supply give high pay, much of it rent (executives, surgeons, stars); low MRP and elastic supply give low pay.
3. **Evaluate:** MPP hard to measure; no price for public-sector output; monopsony; unions and minimum wages; discrimination; immobility; top pay set by peers.
4. **Conclude** on the exact claim. A 2021 question had three claims (explained by theory, exploitation, unjust); the top level needed all three.

In multiple choice, higher wages in X than Y can be explained by Y's **non-monetary advantages**.

8. Compare wage and employment in perfectly competitive and monopsony labour markets (5 questions)

1. **Perfect market:** assumptions; firm diagram with horizontal supply ($= ACL = MCL$) at the market wage; employ where $MRP = W$.
2. **Monopsony:** diagram with supply ($= ACL$) and MCL above it; employ where $MCL = MRP$, pay off supply: lower wage, fewer jobs.

3. **The named factor in each market** (supply of labour, productivity): a perfect-market firm's own productivity gain raises its employment, not its wage; a market-wide productivity rise or labour shortage raises the wage. In monopsony the rising supply curve is what lets the firm hold pay down; a productivity rise lifts wage and employment, but less than in a competitive market.
4. **Evaluate**: unrealistic assumptions; productivity hard to measure; gains may come from machines replacing workers; a minimum wage or union makes monopsony supply horizontal and can even push pay above the competitive level, so "always" fails.
5. **Conclude** on both markets, for wages and employment.

No diagram, or only one market analysed, caps the answer at Level 2.

9. Analyse migration or a structural change in a labour market with a diagram (4 questions)

Data-response parts of 3 to 8 marks.

1. Axes "wage rate" and "quantity of labour"; initial **supply of labour** and **demand for labour** (never AD and AS); equilibrium marked.
2. Shift the right curve: emigration, supply left; immigration, supply right; falling product demand or new technology, demand left.
3. Mark the new wage and employment and explain. For technology, name **structural** unemployment and the need for **retraining**.

Typical marks: axes, initial curves and equilibrium, the shift, the new equilibrium; without a diagram about 3 at most. "(d)" parts weigh benefits for a host country (shortages filled, taxes, demand, skills) against costs (housing and services, wage competition), then judge.

10. Evaluate government intervention in labour markets (4 questions)

1. Match tool to aim: lower **real** wages, public-sector pay rises below inflation; against monopsony, stronger unions, tighter immigration controls, higher minimum wage.
2. **Who should pay for training** (essay): trained workers' MPP and wages rise (MRP diagram); employers gain profit and government gains output, so each has a reason to pay. Evaluate: the low paid can't afford fees or fear debt; employers fear poaching; government funding uses taxes and may favour some groups.
3. **"Leave wages to the market"** (essay): competitive outcome first, then monopsony, inequality and discrimination, and how intervention fixes or worsens them, with diagrams; judge "always".

Worked examples

Example 1

A mining company is the only employer of miners in a remote mining town. The table shows the daily wage it must pay to attract each number of workers, and the marginal revenue product of each worker.

Workers	Daily wage needed (\$)	MRP of that worker (\$)
10	50	–
11	52	92
12	54	84
13	56	80
14	58	76

How many workers does the profit-maximising firm employ, and at what wage?

A 12 at \$54 **B** 13 at \$56 **C** 13 at \$80 **D** 14 at \$58 **[1]**

Wage bills are 500, 572, 648, 728 and 812, so MCL is 72, 76, 80 and 84 for the 11th to 14th worker. The 13th worker's MRP equals its MCL (\$80); the 14th's MRP (\$76) is below its MCL (\$84). The firm employs 13 and pays the supply-curve wage, \$56: **B** (1).

C pays the MCL instead of the wage; D compares MRP with the wage, ignoring that the 14th worker raises everyone's pay.

Example 2

Extract: A government announces that anyone wanting to become a licensed electrician must now train for four years instead of two. Existing electricians keep their licences.

(a) Explain, with the help of a diagram, the likely effect on the wage rate and employment of electricians over the next few years. **[5]**

(b) Explain how the economic rent of existing electricians is likely to change. **[3]**

(a) Diagram: axes "wage rate" and "quantity of electricians" (1); downward-sloping demand for labour and upward-sloping supply of labour, with initial wage W_1 and quantity Q_1 (1); supply shifted left to a new equilibrium at higher W_2 and lower Q_2 (1).

Longer training raises the cost and time of qualifying, so fewer people enter and supply shifts left (1). The resulting shortage makes firms compete for electricians, so the wage rises to W_2 while employment falls to Q_2 (1).

(b) Supply becomes less elastic, because new workers take four years to arrive (1). Existing electricians, who worked at the old wage, now receive the higher one, so the gap between pay and transfer earnings widens (1): their rent rises, until newly trained workers arrive and supply becomes more elastic again (1).

Example 3

A large hospital is the only employer of nurses in a remote region.

Assess whether a nurses' trade union or a national minimum wage would be the better way to raise the wages and employment of nurses in this region. [20]

Model answer (paragraph plan):

1. **Definitions:** monopsony, trade union, national minimum wage. (AO1)
2. **The monopsony outcome, with a diagram:** supply (= ACL), MCL above it, MRP; the hospital employs where $MCL = MRP$ and pays the lower wage off supply, as in the monopsony diagram in "Understand it": fewer nurses, lower pay, a deadweight loss. (AO1, AO2)
3. **How any wage floor helps:** MCL becomes horizontal at the floor up to supply, so holding back hiring no longer saves money; the hospital employs more at the higher wage. Any floor up to where supply meets MRP raises both. (AO2)
4. **For the union:** it bargains with this employer about this job, so it can aim at the wage where supply meets MRP (most jobs, no deadweight loss). It can add training deals that shift MRP right, so pay can rise further without job losses. (AO2)
5. **For and against the minimum wage:** it needs no organising and protects every low-paid worker, but it is set for the whole economy, so nurses' monopsony wage may already be above it (no effect); raised high enough to matter here, it may cost jobs in competitive markets elsewhere. (AO3)
6. **Against the union:** if care assistants or machines can replace some nursing, demand for nurses is more elastic and the hospital can resist; strikes harm patients and lose public support; pushing pay above the last nurse's MRP cuts jobs; bargaining outcomes are uncertain. (AO3)
7. **Other factors:** a public hospital's pay may be set by budgets, not MRP, which is hard to measure for nursing; better housing or conditions could shift supply right instead. (AO3)
8. **Conclusion:** a union is likely to be better here, because its wage can be targeted at this employer and combined with productivity deals, while a national minimum wage is too blunt and probably below nurses' pay already. That depends on the union being strong and demand for nurses being inelastic; where it is weak, a higher or nurse-specific minimum wage is the backstop. (AO3)

Table A Level 3 (14): accurate definitions, a correct **monopsony** diagram used in the argument, developed chains for both policies. Table B Level 2 (6): both policies weighed on both sides, and a conclusion saying which is better and when. **20/20**. A competitive-market diagram here would cap Table A at Level 2.

Common mistakes

- **A competitive diagram for a monopsony question.** In March 2025 (Paper 42 Q3) the overwhelming majority drew one for a minimum wage in monopsony, predicting job losses wrongly, and far too many stayed in Level 1. Points about inflation earned nothing.
- **Reading the monopsony wage off MCL.** In November 2022 (Paper 31 Q17) only 20% were right on a minimum wage in monopsony; 52% chose "wages rise, employment falls", probably taking the original wage from the marginal wage line, not the average wage (supply) line.
- **Forgetting existing staff's pay rise.** In March 2026 (Paper 32 Q8) a common wrong answer counted only the extra workers' pay in the marginal cost of labour; in Q13 many missed that the minimum wage raised employment.

- **Mixing up MRP.** In June 2023 (Paper 33 Q15) only 20% knew the demand for labour is marginal physical product times marginal revenue.
- **Elasticity of demand for labour.** In March 2021 (Paper 32 Q17) only 47% saw that labour being a small share of total cost makes demand for it inelastic.
- **Shifting the wrong curve.** In November 2021 (Paper 43 Q1(a)) some shifted MRP when migration had increased the supply of labour.
- **Leaving out non-pecuniary advantages.** In November 2022 (Paper 43 Q4(a)) answers on net advantages lost marks without them; higher levels needed training and working-conditions policies.
- **One-sided evaluation.** In November 2022 (Paper 41 Q4(b)) many explained stars' and cleaners' pay only by elasticity of supply. In November 2021 (Paper 41 Q3(b)) answers lacked balance between monopsony and unions.
- **Answering a different question.** In March 2021 (Paper 42 Q4(b)) many union answers drifted into government minimum wage policy; in June 2022 (Paper 41 Q4(a)) many listed union costs and benefits without analysing competitive and imperfect markets.
- **Wrong labels.** In June 2024 (Paper 42 Q1(c)) some labelled a labour market diagram with AD and AS, and few mentioned retraining.

How to get the marks

- **Multiple choice:** identify the market from the diagram, then decide **shift** or **movement**. In monopsony, wages come from the supply curve and employment from $MCL = MRP$.
- **Definitions** earn the first marks; keep "minimum" (transfer earnings) and "above" (rent) in yours.
- **Diagrams:** label axes "wage rate" and "quantity of labour"; curves "supply of labour", "demand for labour" or "MRP", plus "ACL" and "MCL" in monopsony. Mark every equilibrium and shift, and refer to the diagram in your writing.
- **Data response** is point-marked: each point, each development, each diagram element, and a final judgement in "consider" or "assess" parts. Use the extract.
- **Essays:** 2021–2022 used 12- and 13-mark parts marked in levels; from 2023, 20-mark essays use Table A (knowledge and analysis, 14) and Table B (evaluation, 6). No diagram, or one market when two are named, caps Table A at Level 2.
- **Evaluate** with elasticities, the size of the wage rise, productivity, capital substitution, small firms, realism of assumptions and how hard MPP is to measure; conclude on the question's key word ("always", "only", "better").

Quick check

1. A studio employs four designers. The least weekly pay each would accept is \$500, \$550, \$650 and \$700, and the studio pays all four the same wage, \$700. Find the total transfer earnings and total economic rent. If the wage rises to \$750, what happens to the second designer's economic rent?

2. In a competitive labour market the demand for labour is $L_d = 1500 - 50W$ and the supply is $L_s = 25W - 300$, where W is the hourly wage in dollars. Find the equilibrium. A minimum wage of \$26 is introduced: how many workers lose their jobs, how many new entrants find no work, and what is the unemployment?
3. The 5th worker at a firm adds 12 units of output a day, and the daily wage is \$90. (a) The firm sells in a perfectly competitive market at \$8 a unit. Should it hire the 5th worker? (b) Instead, the firm's marginal revenue is \$7 a unit. Should it hire the 5th worker now?
4. A monopsonist faces the supply of labour $W = 6 + 0.04L$ and $MRP = 36 - 0.04L$. Find its employment and wage, and the MRP of the last worker employed. What employment and wage would a minimum wage of \$21 give?
5. Explain two reasons why the demand for airline pilots may be wage inelastic. **[4]**

Answers

1. Transfer earnings = $500 + 550 + 650 + 700 = 2400$. Pay = $4 \times 700 = 2800$, so economic rent = $2800 - 2400 = 400$. The second designer's rent rises from $700 - 550 = 150$ to $750 - 550 = 200$: her transfer earnings stay \$550, so the whole rise is rent.
2. $1500 - 50W = 25W - 300$, so $W = 24$ and $L = 300$. At \$26: $L_d = 200$ and $L_s = 350$. 100 workers lose their jobs, 50 new entrants find no work, and unemployment is $350 - 200 = 150$.
3. (a) $MRP = 12 \times 8 = 96 > 90$, so yes. (b) $MRP = 12 \times 7 = 84 < 90$, so no: it would lose \$6 a day.
4. $MCL = 6 + 0.08L$. $6 + 0.08L = 36 - 0.04L$ gives $L = 250$, wage $6 + 0.04 \times 250 = 16$, and $MRP = 36 - 10 = 26$. A minimum wage of \$21 is where supply meets MRP ($6 + 0.04L = 36 - 0.04L$ gives $L = 375$, $W = 21$), so employment rises to 375 at \$21.
5. Pilots' pay is a small share of an airline's total costs (fuel, aircraft, airport charges) (1), so a pay rise barely raises fares and hardly cuts the number of flights or pilots needed (1). Pilots cannot easily be replaced: every flight legally needs qualified pilots, and machines cannot yet fly passenger planes alone (1), so the airline cannot switch to substitutes when pilots' pay rises (1).

Past questions to try

- **9708/32/F/M/25 Q14**: a teacher's transfer earnings and economic rent from her minimum and alternative pay.
- **9708/31/O/N/22 Q17**: a minimum wage in a monopsony market for fruit pickers.
- **9708/33/M/J/24 Q15**: a trade union negotiating with a monopsony employer.
- **9708/42/F/M/24 Q3**: a 20-mark essay on whether a union in a competitive labour market always raises wages and unemployment.