Question 14 (Answer: **C**)

- A minimum wage raises the pay of the lowest earners, which narrows the income gap.
- It works best when the higher-paid do *not* demand matching rises, and when most work is in the formal sector.
- If pay differentials are restored all the way up, the relative gap is unchanged.

Question 10 (Answer: **B**)

- A poverty trap is where earning more brings little or no gain in net income.
- Means-tested benefits are withdrawn as income rises, which is exactly that.
- So the combination of losing benefits and paying tax can leave someone barely better off for working more.

Question 12 (Answer: **A**)

- A monopsonist pays below the competitive wage and employs below the competitive level.
- A minimum wage set between the monopsony wage and the competitive wage raises *both* wages and employment.
- That is the case where a minimum wage does not cause unemployment – unlike in a competitive labour market.

Question 18 (Answer: **B**)

- Education raises skills, so it increases the supply of *skilled* labour.
- Better qualified workers can move between occupations more easily.
- So occupational mobility rises, and productivity with it – the supply of *unskilled* labour falls.

Question 9 (Answer: **D**)

- Higher labour productivity makes each worker more valuable, so the demand for labour rises.
- The marginal revenue product curve shifts right.
- So the wage rate rises, with the supply of labour unchanged.

Question 10 (Answer: **D**)

- A fall in the supply of female labour shifts that supply curve left, so female wages rise.
- Male and female labour are substitutes, so demand shifts towards male workers.
- So male wages rise too – both wage rates increase.

Question 11 (Answer: **D**)

- A minimum wage can raise morale, productivity and the incentive to work, and reduce poverty.
- But if set above the market-clearing wage it reduces the quantity of labour demanded.
- So the *unemployment* it can cause is the drawback, not a benefit.

Question 13 (Answer: **C**)

- A poverty trap is where extra earnings are largely lost to tax and withdrawn benefits.
- Raising the tax-free allowance lets low earners keep more of what they earn.
- Withdrawing benefits more gradually has the same effect, so both reduce the trap.

Question 14 (Answer: **D**)

- At wage W the diagram shows how many workers are demanded and how many offer themselves.
- If W is above the equilibrium, supply exceeds demand and some workers are unemployed.
- So the workers at L are those actually employed, and the gap to the supply curve is the excess.

Question 18 (Answer: **C**)

- Inclusive growth means the gains are shared widely across the population.
- Infrastructure, anti-discrimination law and a higher minimum wage all spread the benefits.
- A policy that concentrates the gains – for example cutting the top rate of tax – is least likely to be inclusive.