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ECONOMICS

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INSERT

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

This Insert contains extracts for Questions 1 and 2.

Anything written on this Insert will not be marked.

This document consists of **3** printed pages and **1** blank page.



Extract for Question 1**Hong Kong's minimum wage**

Hong Kong has a thriving business community. It has thousands of sole proprietors, partnerships and private limited companies as well as many large public companies, some of which are multinational companies. These different business organisations face different cost structures. Sole proprietors, for instance, have low total costs and high average costs of production.

On 1 May 2011, all of Hong Kong's business organisations were affected by the introduction of a national minimum wage. A minimum wage is the lowest amount a worker can legally be paid. In an attempt to reduce poverty, a minimum wage of Hong Kong (HK) \$28 (US\$3.60) per hour was introduced. It was estimated that it raised the wages of 314 000 workers (10% of Hong Kong's labour force). A range of workers, including street cleaners and security guards, received a pay rise. However, domestic helpers who are provided with accommodation, and students on work experience, are not covered by the legislation. One group who appeared to do particularly well out of the legislation were workers in fast food outlets, who in 2010 had an average wage rate of HK\$20 per hour. These workers have also stated that the higher pay has made them feel more appreciated and has increased their motivation.

Opponents of the minimum wage point out that some of the low paid in Hong Kong, as in other countries, come from rich households. In addition, many people on low incomes are not in employment, because they are unemployed or retired.

There is also some debate about whether a minimum wage increases labour costs. Some employers in Hong Kong have sought to keep labour costs down by reducing holidays and removing payment for meal breaks. Other employers have adopted a different approach. They have raised spending on training to increase the output of their workers.

Extract for Question 2

Does Iran's future lie with oil?

In 2010, the world produced 32 billion barrels of oil. Iran made a relatively large contribution to this (see Table 1).

Table 1: Oil production and estimated reserves in selected countries in 2010

Country	Annual production (billions of barrels)	Estimated reserves (billions of barrels)
Saudi Arabia	3.5	264.6
Iran	1.6	137.6
United Arab Emirates	1.0	98.0
Kuwait	0.9	101.5
Iraq	0.8	143.0

As countries' economies grow, demand for oil tends to increase although they are becoming more fuel efficient. They are reducing the amount of oil used per unit of output produced and the amount of fuel used per kilometre travelled.

Although Iran is a major oil producer and exporter, it imports much of the petrol (gasoline) it uses because it lacks the ability to produce enough petrol. In 2011, the price of petrol, gas and electricity rose significantly in the country because the government removed subsidies on these fuels.

Unemployment in Iran was 15% in 2011. Unemployment creates a number of disadvantages including lower tax revenue for the government. The unemployment rate is likely to change in the future and the pattern of employment in Iran may also change as global and domestic demand alters. For instance, an increase in income is likely to have an impact on the market for luxury products in Iran.

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