**Essay Question 12**

**(b) High youth unemployment rates are increasingly a problem in many parts of the world. Weak economy, too many graduates and the lack of suitable jobs created are often cited as the culprits.**

**Assess the relative importance of the various reasons for youth unemployment in different countries. [15] (the negative impact of unemployment)**

Main Body

**1a) Explaining each cause of youth unemployment - Weak economy leads to demand-deficient unemployment**

Cyclical unemployment is related to the business cycle. During the downswing (recession or depression), aggregate demand decreases and firms find they cannot sell all their current output, and stocks pile up. Firms will then adjust to the deficiency of demand by cutting back on production and hire fewer workers, leading to an increase in cyclical unemployment.

Illustrate with AD/AS

decrease in AD – fall in real GDP via the k – decrease in production – decrease in demand for labour – rise in unemployment

**1b) Assessing the importance of weak economy in different countries**

This is especially true in the case of countries in Europe like Spain and Greece where the economy is badly affected by the global financial crisis.

As firms started to retrench workers, youths would be the ones who get cut first as they usually do not qualify for retrenchment benefits. Even if there are firms which want to hire they will choose workers with more experience over youths given the larger number of applicants available during the weak economic situation.

**2a) Explaining each cause of youth unemployment – too many graduates lead to frictional unemployment**

Frictional unemployment arises because of imperfect information in the labour market as it takes time for workers to be matched with suitable jobs. It is also known as search unemployment. The unending flow of people into and out of the labour force and the process of job creation and job destruction create the need for people to search for jobs and for firms to find suitable employees. Since both employers and employees spend time searching for what they believe to be the best match available, frictional unemployment arises.

Frictional unemployment could arise when workers leave declining industry for expanding ones. It could also arise when the recurring stream of students passing out from schools and institutions of higher learning start to look for jobs but have not found them yet. During this lag time, these people would be registered in the labour survey as unemployed.

Therefore, the main cause for the problem is imperfect information. Employers are not fully informed about what labour is available; employees are not fully informed about what jobs are available and what they entail.

**2b) Assessing the importance of glut in graduates in different countries**

In Singapore school leavers typically take on average 3 to 6 months to get into a job. Big countries like China, however, suffer more from frictional unemployment. Every year, there are millions of fresh graduates entering the labour market in China, most of whom will vie for the limited job positions in the finance and commerce industries. Employers will take a longer time to interview and select the best candidates for their firms and hence time taken for these graduates to find a job will lengthen. Some taking more than a year to find a suitable job.

And with the added inertia amongst youth to land a job quickly due to the ability to depend on their parents, this may be a bigger problem in China.

**3a) Explaining each cause of youth unemployment – Lack of suitable jobs created gives rise to structural unemployment**

A reason why job vacancies and unemployment coexist is that unemployed workers often do not have the skills demanded by employers. Structural unemployment arises when changes in technology or international competition change the skills needed to perform jobs or change the location of jobs. People made redundant in one sector of the economy cannot immediately find jobs elsewhere because they either do not have the necessary skills or are unwilling to move to another area/region where prospects are better (occupational and geographical immobility).

**3b) Assessing the importance of the absence of suitable jobs in different countries**

Countries which are still developing may still require more blue-collar workers but more youths are getting highly educated which does not match the skills requirement of jobs created.

In China for example, graduates obtained degrees in Arts and Social Sciences but jobs created are not in these areas. Some graduates took more than a year to land a job.

It reflects a problem of skills mismatch which means that the education system is unable to match the skills requirement of the industries.

Conclusion