**Term 3 Tuition – Unemployment**

**Essay Question 1**

**Governments in economies worldwide solve unemployment problems through the use of loose monetary policy and investment in human capital.**

**(a) Explain why reducing unemployment is a key macroeconomic objective in many countries. [10]**

Analysis of the question:

the advantages of low unemployment affecting the firms, individuals and economy

* aims of government
* benefits of low unemployment

Introduction

* State the 4 macroeconomic objectives
  + The four macroeconomic objectives of the government are high and sustained economic growth, low and stable inflation, low unemployment, and healthy balance of payments.
* Explain meaning of unemployment
  + There are two main types of unemployment: cyclical unemployment and equilibrium unemployment (structural unemployment & search unemployment)
* Question Interpretation
  + Low unemployment is a key objective of many governments because of the many benefits of low employment, and the pursue of low unemployment allows the countries to achieve other objectives.

Main Body

Increase in Material Well Being

**Both demand and supply side caused growth can lead to lower unemployment and hence improvement in SOL**

(1) Increase in AD 🡪 increase the rate of economic growth when the economy is not operating at capacity 🡪 rightward shift in the AD curve from AD1 to AD2 in Figure 1. As total demand for goods and services in the economy increases, this stimulates producers to increase production and hence real output of the economy increases 🡪 raises the demand for labour 🡪 increases income of households, raise purchasing power and increases their ability to access goods and services and hence their material SOL.

Assuming income growth is faster than the growth in population, the real income per capita increases & increases the material well-being of the citizens.

Impacts on Individuals

* Higher income & standard of living. However, they have time for less leisure.

Impacts on Firms

* Lower unemployment leads to higher income & high demand for firms’ goods and services. Higher workers’ morale which in turn may raise labour productivity
* More difficult to recruit staff and people applying for jobs may possess lower skills. The existence of lower unemployment may make workers less fearful of losing their jobs. As a result, they are less willing to adopt good working practices

Impact on Economy

* Most significant gain - higher output (operating nearer the PPC)  Rise in GDP growth
* Higher standard of living
* Less govt resources required to restructure the economy to solve unemployment problem
* Higher revenue from direct and indirect taxes

Evaluation

* If unemployment falls below the equilibrium level of unemployment (NAIRU/NRU)🡪 ‘overheating’ of the economy and inflationary pressure.
* Explain why rising inflation may be undesirable.

The pursue of low unemployment allows the countries to realise other macroeconomics objectives such as economic growth and less strain on government budget. Increasing employment is often accompanied by higher economic growth and higher real GDP, increase in productive activities.

Conclusion

Low employment is often a key objective of many countries. However, there are times when unemployment may not be the main macroeconomic objective of the economy, for instance, severity of other problems. When a country faced hyperinflation, functions of money will be severely impaired. People will no longer be willing to accept money as a form of payment and store of value. The great uncertainty will result in capital flight and reduce the volume of savings, investment and economic growth. In such situation, government should address the problem of inflation and restore confidence in the economy before achieving macroeconomic aims.

**Essay Question 2 – Essay Outline**

Singapore's unemployment rate rose to 2.1% in April to June 2011, up from the 3-year low of 1.9% recorded in January to March 2011.

*Ministry of Manpower, Singapore, 2011*

(a) Explain why a government would want to reduce unemployment in an economy. [10]

(b) Discuss the extent to which demand-side factors are likely to account for the rise in unemployment in Singapore. [15]

**A)Introduction**

- definition of unemployment

- state the types of unemploymemt

**Main body**

**1. Identify the reason for the government to reduce unemployment**

- to solve the problem of under- utilization of resources like labour

- decrease in standard of living – decrease in employment -decrease in income – fall in real GDP per capita – lower SOL

- to prevent the problem of budget deficit due to excessive unemployment

- to prevent the problem of unequal distribution of income AND THE SOCIAL EFFECTS OF social instability

- to prevent the fall in SOL

- to aid the social polciy like retirements, medical care through the income available for contribution of cpf.

**2. analysis –** which effect is most impactful? The reason for this impact – impact on social policy – affect the labour market and political stability of the economy

**Conclusion**

B) introduction

To examine whether dd factors are most important or not in influencing unemployment, we need to study the nature of sg economy and the types of unemployment in SG

Main body

1. Describe the nature of economy for sg

-small and open economy

-capital intensive

High dependence FDI and XD (XD to trade is 2,5 times)

**2. Why dd deficient unemployment is more significant and this explains why it is most influential factor**

- XD is of great composition of the total AD – if XD falls, the AD will decrease – the real GDP will decrease via the k effect – decrease in production - decrease in dd for labour – increase unemployment – draw diagram and explain diagram

**Evaluation:**

* XD to GDP ratio is high – high composition of influence from XD – signify the importance of XD to production – therefore unemployment
* The significance of consumption and government expenditure – high value of GDP which will influence consumption and tax revenue for government expenditure
* Value of investment – affects mass employment

**Why it is not significant?**

Influence of import demand – decrease in AD is based on import demand – does not affect production – does not affect unemployment

Small k effect – the impact from AD is lesser when the economy contracts – production decreases less – unemployment is not affected extensively  
**3. Explain why supply factors in the case of structural unemployment will be significant**

* **High degree of emphasis on high-valued production – skill-intensive – skill mismatch**
* **Capital intensive – displacement of workers**
* **FDI based – very competitive – adjust to competition – strcuturalchanges – displacement of workers and skills mismatch**

4. Why frictional unemployment will not be significant

- labour force is well informed / less social benefits – more willing to work

5. Analysis –

The high degree of competition will demand extensive structural changes that make supply side factors more impactful – while demand side is less impactful because we can diversify the international market demand to make it less impactful for the economy.

Conclusion

**Essay Question 3**

**“Hosting a major world sporting event is viewed as a defining moment for any country, with millions if not billions of dollars spent on improving roads, airports and other infrastructure, a reduction in unemployment and the potential enhancement of international investment and tourism.”**

**Adapted from The New York Times, 27.06.09**

**Explain the impact of hosting a major world sporting event on the different types of employment in an economy. [10]**

Introduction

The hosting of a major world sporting event will mean that there is a higher degree of economic activities that will affect the production, employment and economic growth of an economy. This impact is more significant in term of the impact on the different types of unemployment.

Main Body

**1. Explain the types of unemployment**

### Demand Deficient Unemployment

* + - Demand-deficient unemployment occurs as a result of a fall in demand for labour caused by an economic recession under a condition of wage inflexibility where there is ‘stickiness’ in real wage rates as workers are unwilling to accept lower wages, stated by Keynes. (difficult to adjust downward)
    - Also known as cyclical unemployment, which is contributed by a fall in export demand and foreign direct investment (FDI) which is affected by global trade and business cycle

### Structural Unemployment

* + - Structural unemployment is caused by the changing pattern of demand and/or supply in the economy as a result of sectoral adjustment, technological advancement, imperfect labour market and seasonal adjustment of production period.

### Sectoral Unemployment (adjustment in sectors of the economy)

* + - Sectoral unemployment occurs when there is a change in pattern of demand and change in cost competitiveness within a particular sector of the economy 🡪 Change in competitive advantage

### Technological Unemployment

* + - Technological unemployment occurs as a result of a change in production techniques, usually with the introduction of new technology.

🡪↑ Productivity 🡪↓dd for labour (displacement of workers due to use of capital)

🡪skill incompatibility (new technology)

### Regional Unemployment

* + - This form of unemployment occurs when a certain region experiences full employment but another region has unemployment.
    - This is due to occupational and geographical immobility between regions of a country which occurs as certain regions are no longer able to attract investment to provide employment due to poor investment environment and higher wage rate.

**2. Explain how the hosting of the major world sporting event will solve the various types of unemployment**

In solving demand-deficient unemployment, the hosting of world sporting events will bring about higher level of aggregate demand. Level of investment will increase as there will be infrastructural and institutional development. There is also higher consumption as there is higher level of leisure activities and expenditure on goods and services due to the event. Government expenditure will also increase since there is a need to build public facilities to support the event. Lastly, some of the events may even induce the rise of visitors who will induce higher level of expenditure on tourism which will raise export demand. Consequently, there will be an increase in the level of aggregate demand which will raise production and employment and national income via the multiplier effect. There is a higher level of demand for workers which will prevent the occurrence of demand-deficient unemployment.

The hosting of the world sporting event will also lead to higher degree of diversification of the economy, which will provide a wider range of employment opportunities that will suit the potentials of diverse group of people. This will make it easier for the economy to rely less on jobs which are too technological-based as in the high-valued industries. Furthermore, it is beneficial to have employment from sporting events as they are usually more labour-intensive than the high-valued technological-based industries which are capital-intensive. Due to these positive impacts, it will be easier for the economy to overcome structural and technological unemployment as the hosting of the global sporting event can overcome displacement of works and sports incompatibility.

However, it is not possible for the economy to overcome frictional unemployment and regional unemployment through the organizing of the sporting event as the main influence of the investment depends on how the government allocates resources to attract investment and in the implementation of policy to solve market imperfection on employment.