Discuss the extent to which the nature of an economy affects a government’s choice of macroeconomic policies in addressing unemployment. (15)

Introduction

Definition if unemployment

State that there are many policies which can be used to solve unemployment and their effectiveness are affected by many factors and one of them is the nature of the economy which are factors that affecting the choice of policies to be adopted

Main Body

1. What is meant by nature of the economy

- size of the population

- types of production

- level of technological development

2. What policies are commonly used to solve unemployment

3. Why the nature of economy would be affecting the choice of policies used

4. Why other factors would affect it?

Severity of unemployment

5. Analysis - degree of significance of the influence of the nature of economy in influencing the choice of policy

**Conclusion**

Discuss the extent to which the nature of an economy affects a government’s choice of macroeconomic policies in addressing unemployment. (15)

**Introduction**

In addressing the problem of unemployment, there is a need to consider the nature of the economy to select the right type of policies to solve unemployment. The nature of the economy would be the influencing factor as they contribute to different types of unemployment which requires the appropriate policies to be adopted. However, there are other factors that would affect the decision of policies used.

Main body

The types of policies the government can adopt are fiscal policy, monetary policy, exchange rate policy and supply-side management policy. Fiscal policy involves the use of taxation and government expenditures to influence economic activities so that real GDP and product can increase to increase the demand for labour, solving unemployment. As for monetary policy, the government will lower interest rate and raise economic activities to increase production, increasing demand for labour and solving unemployment. The supply-side management policies would help the workers improve their skills of the workers and expand the economic structure to avoid structural unemployment and technological unemployment. Lastly, the government can also use exchange rate policy to lower exchange rate to increase export demand so that real GDP and output is increased, increasing greater demand for labour, and solving cyclical unemployment.

It is important to know what the features of nature of the economy to understand how they can be significant factors that would affect the choice of policies to address unemployment. Features like the size of population would affect the decision as they would affect the size of market demand that would affect the aggregate demand and real GDP, thus affecting the production level and employment rate. If the size of the population is small, there is a need to rely of external demand for growth of real GDP and output, this would mean that the price competitiveness of export must be raised and thus, the exchange rate policy is needed to help the economy raise export demand by lowering or sustaining exchange rate to maintain export demand. In Singapore, the government would use zero appreciation of exchange rate or gradual modest appreciation to maintain export competitiveness, and this proves that small economy’s choice of policy to solve unemployment can be affected by the size of the population.

Another feature of nature of the economy that would affect the choice of policy is the level of technological development that determines the composition of production, affecting the type of employment in the economy. For an economy that focus on high technological advancement for accelerating growth, the economy is likely to experience structural unemployment which is **the result of displacement of workers and skill mismatc**h and the use of manpower development policy which involves training and job placement with training programmes from SGSkillsFuture. Based on this nature of the economy, the manpower policy based on supply-side management policy will be the choice to be used to solve unemployment.

Lastly, if the stage of the economy is still at an infant level and there is a need for the economy to raise investment to raise mass production to match rising demand, the use of low interest rate policy or expansionary monetary policy would be most appropriate. At the stage when the economy needs further development, the use of interest policy is most appropriate as the government needs a market-based solution to induce permanent economic development which is built by the private firms. As firms seek for growth and they will compete for development and growth, the employment is more permanent and stable with this focus on market mechanism

However, there are other situations where other reasons will determine the choice of policy. One factor is the severity of unemployment where the best policy is the use of fiscal policy and it would be better for the government to use fiscal policy to directly involve in solving the severity of unemployment. At this circumstance, the economy lacks confidence and the impact recession would affect the market’s ability to solve unemployment. Thus, this circumstance would be the influential factor to determine the reason for the use of fiscal policy and not due to the nature of the economy.

In view of this discussion, it is observed that the nature of the economy is influential in the decision of the choice of policy to be used. However, the other factors are helpful in determining the choice of policy too. The time factor and complexity of unemployment can be dealt better to solve unemployment when the right type of policy is used.

**In sum, the issue of unemployment is of great significance to the economy and a good understanding of the factors that affect how the government solve unemployment is equally significant. To achieve this, zthe understanding of the factors affecting the choice of the policy is a good way to solve unemployment effectively.**