# Notes 2015 – Topic 2B – Unemployment

## Impacts of Unemployment

### Rise in opportunity of idle resources

* + - Seen in term of loss of production and the need for more funding to finance the introduction of unemployment benefit

### Increase in cost of government expenditure

* + - Unemployment benefits have to be given out and there is a decrease in tax revenue since taxable income from employment and business activities will be reduced.
    - This will create budget strain as government expenditure will be greater than tax revenue.

### National income will be lowered which will lead to a reduction in real per capita income

* + - Also, lower tax revenue will mean that there are lesser sources of tax revenue to finance public project to provide more public and merit goods to make life more comfortable, and improve qualitative aspect of SOL.

### Create social instability as illegal activities and crime rate will rise

### Unequal distribution of income

* + - Excess labour supply will drive wage rate downwards, lowering the income of the workers and this will lead to social dissatisfaction.

### Undermine the economy’s production capacity as resources are under-utilized.

* + - Actual economic growth measured in term of growth of GDP will decrease.
    - Lesser tax revenue will mean that the economy is unable to have more resources to generate potential growth as the government is unable to finance its infrastructural and institutional development to induce economic development for future growth.

### Loss of competitiveness as the

* + - Economy may cut production and reduce employment as it cannot sustain their comparative advantage in export demand and inflow of investment into the economy.

### Reasons for Government to Maintain Low Unemployment

### Reduce opportunity cost of idle resources

* Present budget deficit/strain - ↑UN+ benefit/↓tax
* Increase production capacity
* Maintain a high SOL (more people have income to spend/tight labour market will lead to rise in wage rate)
* Prevent unequal distribution of income – to maintain social stability
* Raise tax revenue to provide financing for infrastructural and institutional development
* Ascertain competitiveness

Questions for discussion:

1. How does demand deficient unemployment occurs? (illustrated by labour market)

2. How does demand deficient unemployment occurs from AD-AS analysis?

3. Why unemployment is of greater importance to Singapore than other aims?

4. Accounts for reasons why youth unemployment is higher than general unemployment in European countries.