**Chapter 11 Unemployment**

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**1. Types of unemployment**

Meaning of Unemployment

* + - Refers to all individuals who are able and willing to work but not offered a job.

### Unemployment Rate

* + - The ratio of unemployed people to the labour force/active working population
		- Unemployed people are individuals aged 15 and above who are unemployed but are willing and able to work.
		- Formula:

Unemployment Rate = 100 x $\frac{No.of Unemployed People}{Active Working Population (Labour Force)}$

### Labour Force

* + - Refers to both employed and unemployed individuals (aged 15 and above) that are willing to work (active working population)

### Working Age Population

* + - Refers to all individuals, above 15 years of age, who are able and willing to work and are employed. (active working population and inactive working population)

### Labour Participation Rate (SG – 0.68 in 2016)

* + - Conversion of inactive working population into active working population
		- Proportion of labour force that are employed.
		- Formula:

Labour Participation Rate = 100 x $\frac{Active Working Ppoulation (Labour Force)}{Total Working Pupulation }$

### Economically Inactive Labour Force

* + - Refers to the portion of the labour force who is not working, does not have a job to return to, and are not looking for a job.
		- E.g. Full-time students, housewife, the disabled, etc.

Qn: why must the country have a high labour participation rate?

**1.1 Frictional Unemployment**

- It occurs as result of poor information in the labour market which makes it difficult for workers to find employment and thus creates a time lag before workers find suitable jobs.

**1.2 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.

**1.3 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

**1.4 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)

**1.5 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.

**1.6 Seasonal Unemployment**

- Meetings, Incentives, Conferencing, Exhibitions (M.I.C.E.)

- It is caused by relatively regular and anticipated decline in business activity during a certain time period of the year.

**1.7 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

**2. Why are governments concerned over the problem of unemployment? (Impact of unemployment) [10]**

Introduction

Define Unemployment - The unemployed refers to those who are currently without a job, but are actively seeking for one.

It is one of the main aims of government as the failure to prevent unemployment will create strong repercussions on the economy and it will be detrimental to the economy.

Main Body

A) Explain at least 3 problems of unemployment. (loss of NY, utilization of resources, welfare to individuals)

1. Lost Output

2.

• As human effort is the least durable of economic inputs and since the unemployed are valuable resources, the potential output of the unemployed workers is lost forever.

• This loss represents a serious wastage of resources.

• Economists measure the forgone output in terms of the GNP Gap.

• This gap is the amount by which the, actual GNP falls short of potential full employment GNP.

3. Loss of income to unemployed and lower SOL

• Most obvious cost of unemployment is on the unemployed themselves.

• E.g. direct financial cost of the loss in their earnings, measured as the difference between their previous wage and any unemployment benefit.

• This financial loss will impact their households in the form of lower standard of living.

• Some households may even face the problem of poverty as a result of unemployment

4. Loss to others (individual cost)

• Unemployment results in broader costs to the economy.

• The under-utilisation of resources leads to lower incomes for other people too.

• The government loses tax revenues, since the unemployed pay no income tax, and given that the unemployed spend less, they pay less expenditure taxes. The government may also incur higher expenditures in the form of unemployment benefits and the provision of other welfare benefits.

• Firms lose the profits that could have been made, had there been full employment and a higher demand for consumer goods.

• Prolonged high unemployment rate will lead to an eventual lowering of-skills level of the country.

5. Social costs (Cost to the society)

• Unemployment is also a social problem. Severe hardships can be caused by prolonged periods of unemployment Social research has shown that crime, mental illness and general social unrest tend to be positively associated with unemployment.

Conclusion

**3. Reasons for governments 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

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

**“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

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		- 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.