

Chapter 24 Employment

Answers to Knowledge checks

- 24.1** The unemployed are part of the workforce because they are available and looking for work, so they are economically active.
- 24.2** There are likely to be some people who for various reasons are between jobs and searching for a new one. Or they may be active in looking but not prepared to accept the jobs that are available.
- 24.3** Cyclical unemployment, as a period of recession is part of the business cycle.
- 24.4** If the economy is operating below full employment, it is not producing as much as it could given its labour resources, so it is positioned inside the *PPC*.

Answers to Exercises and Case studies

Exercise 24.1

Remember that the working population is made up of three groups: those in employment, the unemployed and the economically inactive. We can therefore calculate the number of unemployed as the population minus the employed and the economically inactive. For Greece in late 2017, this is $6,885 - 3,706 - 2,193 = 986$ (thousands).

The percentage unemployment rate is calculated as the number unemployed as a percentage of the labour force (i.e. those employed plus the unemployed). So, the unemployment rate in this example is $100 \times 986 / (3,706 + 986) = 21\%$.

This sounds really high, but Greece in 2017 was still recovering from a deep recession.

Exercise 24.2

- a** If unemployment arises as a result of the decline of the manufacturing sector and the expansion of financial services, this is regarded as **structural unemployment**. Manufacturing and financial services require quite different skills, and former factory workers cannot become international bankers without some considerable retraining. In other words, this is unemployment that arises from changes in the structure of economic activity within an economy. It is **involuntary unemployment**.
- b** When a worker leaves one job to search for a better one, this is **frictional unemployment**, and is part of the proper working of the labour market. This is **voluntary unemployment**.
- c** Unemployment that occurs in the trough of the economic cycle is **cyclical unemployment**.
- d** If the real wage is held above the labour market equilibrium there is excess supply of labour, and therefore unemployment. The root cause is the sluggishness of the labour market in reaching equilibrium — or it may be caused by trade union action holding wages above the market equilibrium level. In some circumstances the imposition of minimum wage legislation can have a similar effect in some segments of the labour market. This sort of unemployment is **involuntary**, as workers would like to take jobs at the going wage rate but cannot find employment.
- e** This is **seasonal unemployment**.
- f** If unemployment arises from a slow adjustment to a fall in aggregate demand, this may be regarded as **demand-deficient unemployment**. It should fade away once wages adjust to the equilibrium level.

- g** When low-paid jobs offer less than a worker can obtain in unemployment benefit, the worker may choose to remain unemployed. This is **voluntary unemployment**, and arises where benefit levels are over-generous relative to wages. Changes in the eligibility requirements for unemployment benefit have attempted to eliminate this sort of unemployment.

Exercise 24.3

I cannot comment on your answer here, as I do not know when you will be accessing the data.

Case study 24.1

The cost of unemployment

- a** In evaluating the costs of unemployment from society's perspective, you need to balance the negative effects (such as lost output or civil unrest) against the positives (such as the need to have a flexible labour market).
- b** Again, the issues for discussion will need to cover the distinctions between short and long periods of unemployment, and the voluntary/involuntary aspects of unemployment. There is also the need to find a balance between protecting the vulnerable by providing benefits, and the need to give appropriate incentives for people to work and contribute to society.

Answers to end-of-chapter questions

A Multiple-choice questions

- 1** c. Economically inactive
- 2** d. It includes people who are actively seeking work but not eligible for unemployment benefit
- 3** b. Structural

B Knowledge and understanding questions

- 4** Unemployment refers to people who are economically active but not in employment.

A full explanation of unemployment	2 marks
A vague or partial explanation of unemployment	1 mark

- 5** Reasons may include:
- Efficient use of labour resources in the economy
 - Reduced payment of unemployment benefits
 - Increased taxation revenue
 - Increase in *AD* leading to economic growth

Two reasons explained	4 marks
One reason explained AND one reason identified	3 marks
One reason explained OR two reasons identified	2 marks
One reason identified	1 mark

- 6** Possible causes include:
- Structural unemployment – unemployment arising because of changes in the pattern of economic activity within an economy
 - Cyclical unemployment – unemployment that arises during the downturn of the economic cycle, such as a recession

- Demand-deficient unemployment – unemployment that arises because of a deficiency of aggregate demand in the economy, so that the equilibrium level of output is below full employment
- Seasonal unemployment – unemployment that arises in seasons of the year when demand is relatively low

Two causes explained	4 marks
One cause explained AND one cause identified	3 marks
One cause explained OR two causes identified	2 marks
One cause identified	1 mark

C Stimulus response question

- 7 a** The full employment level of real GDP corresponds to a situation in which the economy is operating at its full capacity level, utilising its resources (including workers) effectively.

A full explanation of full employment	2 marks
A vague or partial explanation of full employment	1 mark

b

AO1 Knowledge	1 mark
AO2 Application	1 mark
AO3 Analysis	5 marks
AO4 Evaluation	5 marks

Knowledge (1 mark) is likely to include:

- Full employment

Application (1 mark) is likely to include:

- Application to the Australian economy

Analysis (5 marks) is likely to include:

Analysis of the possible positive effect of full employment, for example:

- Increased levels of employment, leading to increased consumption and increased *AD*
- Reduction in inequality/poverty
- Reduction in de-skilling in the economy (hysteresis)
- Increase in taxation revenue
- Decrease in the payment of unemployment benefits

Evaluation (5 marks) is likely to include:

Evaluation of possible negative effects of full employment, for example:

- Upwards pressure on the price level
- Opportunity cost of focusing on one macroeconomic objective

A judgement of the possible effects of full employment on the Australian economy

D Essay question

AO1 Knowledge	3 marks
AO2 Application	4 marks
AO3 Analysis	6 marks
AO4 Evaluation	7 marks

Knowledge (3 marks) is likely to include:

- Causes of unemployment, including:
 - structural unemployment
 - cyclical unemployment
 - demand-deficient unemployment
 - seasonal unemployment

Application (4 marks) is likely to include:

- Application to the UK economy

Analysis (6 marks) is likely to include:

Analysis of the causes of unemployment, for example:

- The impact on *AD*
- The impact on the output gap
- The impact on *LRAS*

Evaluation (7 marks) is likely to include:

- Evaluation of the causes of unemployment and their effects on the UK economy
- Evaluation that one cause is greater in impact than another cause

A judgement of the main causes of unemployment in the UK economy