

# Catholic Junior College

## THEME 3: THE NATIONAL AND INTERNATIONAL ECONOMY

### 3.2.2 & 3.2.3 MACROECONOMIC ISSUES & POLICIES

#### UNEMPLOYMENT

##### ENDURING UNDERSTANDING

Using the macroeconomic indicators, the government of a country can determine which macroeconomic aim has not been achieved at that point in time. The failure to achieve one or more macroeconomic aims leads to macroeconomic issues, which will reduce the standard of living of its citizens. This will have different consequences, depending on the perspectives of the different economic agents-namely, consumers, producers and the government.

##### ESSENTIAL QUESTIONS

- Why is the economy not doing well? What are the problems/issues? What are the causes for these problems?
- What are the consequences to the consumers, producers and government if the economy faces these problems/issues?
- What are the policies available to the government to alleviate the problems/issues?

##### UNIT SUMMARY

You have learnt about the key macroeconomic aims – high, sustainable and inclusive economic growth, price stability, full employment and favourable position of balance of payments and the indicators used to measure if the aims are achieved. You have also learnt about the AD/AS framework.

This topic addresses the issues an economy may face as a result of not achieving the **macroeconomic aim of Full Employment**. We will look at the **Causes of** unemployment, understand how the **Consequences** of unemployment differ based on the different perspectives of *consumers*, *producers* and the *government*. We will also explore the issue of unemployment in the *Singapore* context.

Finally, you will learn about the **Cures (policies)** which the government could implement to correct or alleviate high unemployment in order to achieve the macroeconomic aim of full employment.

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### **1. UNEMPLOYMENT**

- 1.1. Definition and Measurement of Unemployment
- 1.2. Types and Causes of Unemployment
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  - 1.2.2. Structural Unemployment
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- 1.3. Effects of Unemployment
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- 2.1. Fiscal Policy
- 2.2. Monetary Policy (Centered on Interest rate)
- 2.3. Monetary Policy (Centered on Exchange rate – in the Case of Singapore)
- 2.4. Supply-side Policies

## **Glossary & Readings**

### **REFERENCES**

1. Sloman, 8<sup>th</sup> ed, 2012, Economics, Ch 15, 20, 21, 22
2. Tan, et al, 2009, Economics in Public Policy, Ch 1
3. Roger L Miller 8<sup>th</sup> Edition: Economics Today, pg 780 to 785
4. Parkin, M., et al (2001), 5<sup>th</sup> ed, Economics, Ch 34.
5. Beardshaw, J., et al (2001), 5<sup>th</sup> ed, Economics: A Student's Guide, Ch 40 & 41
6. Maunder, P., et al (2000), 3<sup>rd</sup> ed (revised), Economics Explained, Ch.29

## H2 9570 SYLLABUS REQUIREMENTS

### Macroeconomic Issues: **Causes** and **Consequences & Policies (Cures)**

High Unemployment	
<b>Causes</b>	<ul style="list-style-type: none"> <li>• Demand-deficient (Cyclical) unemployment                             <ul style="list-style-type: none"> <li>◦ Fall in AD; due to fluctuations in the business cycle;</li> </ul> </li> <li>• Structural unemployment:                             <ul style="list-style-type: none"> <li>◦ Mismatch of skills between the unemployed and the skills required by producers seeking factors of production;</li> </ul> </li> <li>• Frictional unemployment:                             <ul style="list-style-type: none"> <li>◦ Unemployment due to job search in the process of transiting between jobs</li> </ul> </li> </ul>
<b>Consequences</b>	<ul style="list-style-type: none"> <li>• Consumers:                             <ul style="list-style-type: none"> <li>◦ purchasing power, savings, consumption, SOL etc.</li> </ul> </li> <li>• Producers:                             <ul style="list-style-type: none"> <li>◦ investment, production, profit etc.</li> </ul> </li> <li>• Government:                             <ul style="list-style-type: none"> <li>◦ consumer and investor confidence, impact on other macroeconomic aims</li> </ul> </li> </ul>
<b>Policies (Cures)</b>	<ul style="list-style-type: none"> <li>• Demand-deficient (Cyclical) unemployment                             <ul style="list-style-type: none"> <li>◦ Use of expansionary demand-management policies, i.e. Fiscal Policies, Monetary Policies (Interest Rate or Exchange Rate) to increase AD</li> </ul> </li> <li>• Structural unemployment:                             <ul style="list-style-type: none"> <li>◦ Use of interventionist supply-side policies for skills upgrading and training to increase employability</li> </ul> </li> <li>• Frictional unemployment:                             <ul style="list-style-type: none"> <li>◦ Use of interventionist supply-side policies to improve information infrastructure on available jobs and workers as well as job matching.</li> </ul> </li> </ul>

Students will need to understand the **causes** of these macroeconomic issues, as well as analyse the **consequences** of these issues from the perspectives of consumers, producers, and governments. In particular, understanding from the *Singapore* perspective (e.g., BOP account components, role of FDI in Singapore, inclusive growth in Singapore) is important.

Students will then need to understand the **cures (policies)** that the government will implement to tackle the macroeconomic issues. A critical analysis of the effectiveness and limitations of the policies will be applied through the use of criteria such as root cause of the issues, and nature of the economy.

The use of AD/AS analysis to illustrate macroeconomic problems in an economy is required.

## 1 UNEMPLOYMENT

### 1.1 Definition and Measurement of Unemployment and Full Employment

**Definition:** *Unemployment* is the situation where those who are capable of and willing to work but are unable to find suitable employment.

The unemployed refers to people who are capable of and willing to work but are unable to find suitable employment.

According to the Ministry of Manpower Singapore, unemployment refers to persons aged fifteen years and over who are not working but are available for work and are actively looking for a job. They include persons who are not working but are taking steps to start their own business or taking up a new job.

**Definition:** The *labour force* refers to all people within a country who are economically active, they include those who are working and actively seeking employment.

The labour force measures the manpower currently available in the economy, it comprises people who are currently employed and those seeking employment. Therefore, the labour force consists of both the employed and the unemployed.

The labour force participation rate measures the proportion of working-age population who are in the labour force.

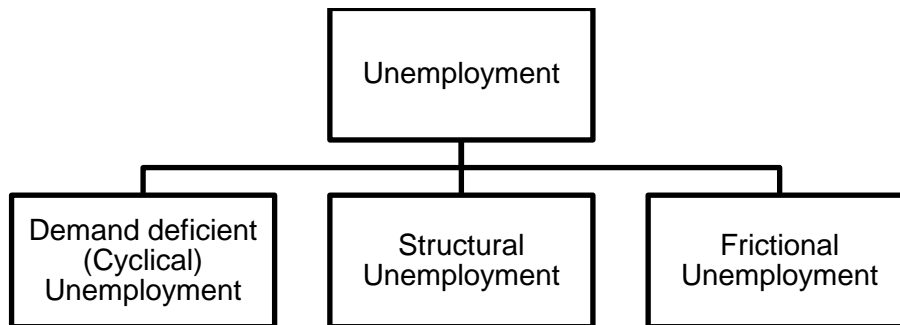
#### Unemployment Rate:

The unemployment rate measures the percentage of the labour force who are unemployed.

$$\text{Unemployment rate} = \frac{\text{Number of Unemployed}}{\text{Labour Force}} \times 100\%$$

## 1.2 Types of Unemployment

There are 3 major types of unemployment.



### Meaning of Full Employment

Full employment occurs when the economy is operating at the full employment output and there is no demand deficit (or cyclical) unemployment.

Full employment does not mean zero unemployment where everyone seeking employment will be employed, but a low level of unemployment associated with structural, frictional, and seasonal unemployment. These low levels of unemployment are estimated to range from 2% to 6%, depending on the state of the economy, this is also known as the Natural Rate of Unemployment.

### Singapore's Unemployment Rate, 2012 to 2022 (%)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Overall Unemployment Rate (%)	2.0	1.9	2.0	1.9	2.1	2.2	2.1	2.3	3.0	2.7
Resident Unemployment Rate (%)	2.8	2.8	2.7	2.8	3.0	3.1	2.9	3.1	4.1	3.5

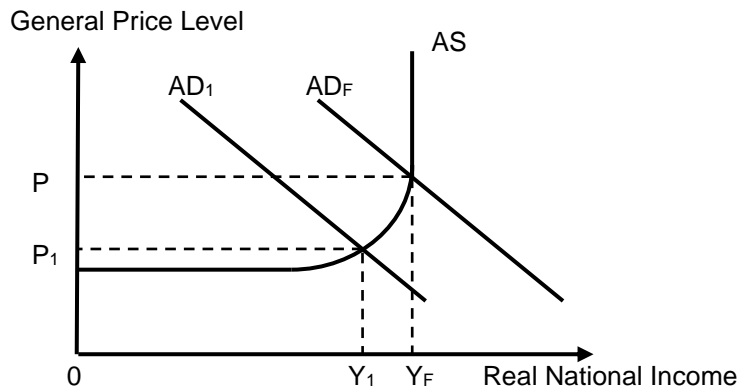
*Note: Residents refer to Singapore Citizens and Permanent Residents.*

*Source: Manpower Research & Statistics Department, MOM*

Singapore's natural rate of unemployment is widely regarded as approximately 2%. From the above data, we can infer that Singapore's natural rate of unemployment for most of the past 10 years is indeed at about 2%.

### 1.2.1 Demand-deficient (Cyclical) Unemployment

**Definition: Demand-deficient unemployment** is caused by the fall in or lack of aggregate demand (AD) in the economy.



**Figure 1: Demand-deficient (Cyclical) Unemployment**

Acronym	Steps	Description
A	1. <b>AD/AS Factor and Component</b>	Demand deficient, also known as cyclical unemployment, occurs and increases during recessions or during the contraction phase of the business cycle. This is caused by a decrease in any component of AD.
S	2. <b>SHIFT of AD/AS</b>	Referring to Figure 1, the effect of decrease in AD can be seen as a leftward shift of $AD_F$ to $AD_1$ .
A	3. <b>ADJUSTMENT process</b>	<p>A fall in AD from <math>AD_F</math> to <math>AD_1</math> causes firms to reduce production in the face of lower demand. This results in a fall in derived demand for factors of production including labour, resulting in demand-deficient unemployment.</p> <p>A fall in AD will trigger successive rounds of decreases in national income and income-induced consumption. At each round, the decrease in both gets smaller. The multiplier process ends when the decrease in national income is too small to generate further decreases in income-induced consumption.</p> <p>Due to the multiplied decrease in real national income and real output, the derived demand for all factors of production including labour will also decrease.</p>
P	4. <b>END POINT</b>	Therefore, when AD and real output decreases, demand-deficient unemployment will increase.

Generally, as the economy recovers from a recession, the problem of demand-deficient unemployment will decrease. It is important to note that during a recession, different industries will be affected differently. Industries selling luxury goods (income elastic demand) like restaurants are likely to be more adversely affected than industries selling normal necessities goods (income inelastic demand) like groceries.

Singapore, being heavily trade reliant, saw rising demand-deficient unemployment during the global economic crisis of 2008-2009, where her major trading partner USA faced recession. These contractions of the economies of Singapore's major trading partners resulted in a fall in exports<sup>1</sup> from Singapore, which resulted in a fall in Singapore's AD and hence national output, leading to a rise in unemployment rate.



### **Food For Thought**

During a recession, the industries that are labour-intensive are likely to see a greater number of retrenchment than industries that are capital-intensive. Why?

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<sup>1</sup> Singapore's exports consists of tourism services, biomedical services, education and semiconductors etc  
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### 1.2.2 Structural Unemployment

**Definition: Structural unemployment** is caused by a mismatch of skills when the skills of the unemployed do not match the skills demanded by the employers.

This mismatch of skills often arises when there are changes in the structure of the economy, typically brought about by technological changes that can make the job skills of many workers obsolete. As such, the unemployed are likely to experience long-term joblessness. Structural unemployment occurs even during periods of strong economic growth.

Structural unemployment is inevitable because changes in tastes, technology, taxes, or competition will reduce the demand for certain skills (often low skills) and increase the demand for other skills (high value-added skills).

Let us now analyse in detail the underlying causes of structural unemployment.

#### 1) Changing structure of economy

When there is a permanent fall in the demand for a firm or industry's goods and services due to changes in technology that may have resulted in a change in consumers' tastes and preferences, production will be cut back, leading to a decrease in the demand for labour.

#### Some real-world examples for your reference

##### **Nokia**

The introduction of smart phones resulted in a fall in demand for Finland's Nokia mobile phone, resulting in structural unemployment among workers employed in the mobile phone industry in Finland.

##### **Textile**

Textile workers in the USA lost their jobs and were structurally unemployed when textile manufacturers shifted their production factories to cheaper location such as Thailand.

##### **Singapore**

Another example is in Singapore, where competition from emerging low-cost countries in labour intensive manufacturing has changed Singapore's economic structure permanently. The outsourcing<sup>2</sup> of manufacturing factories and jobs to developing countries in the region such as China, India and Vietnam, coupled with an increasing shift towards higher value-added niche sectors in Singapore have resulted in structural unemployment in Singapore.

- For instance, the electronics cluster in Singapore has seen a shift from assembly of computers and hard disk drives towards "fabless" semiconductor firms.

#### 2) Changing production techniques and methods

Technological unemployment is a type of structural unemployment resulting from the successful growth of new industries using labour-saving technology e.g. automation. Advances in automation have been blamed for rising structural unemployment.

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<sup>2</sup> Outsourcing refers to the hiring of a party outside the company to perform services or create goods that were traditionally carried out in-house in an effort to cut costs.



## Article 2: Technological change beyond Covid-19

There are 47 robots at work in Jewel Changi Airport and in the airport's terminals. They represent the face of automation that helps to keep Changi Airport humming along every day. The use of robots and other machines at a time of rising unemployment might appear counter-intuitive, but it is part of the push for automation that is important for Singapore to stay abreast of global trends. Workers must participate in the remaking of the economy beyond Covid-19 and not get stuck in the deceptive comforts of the gig economy. Changi Airport is emblematic of the larger benefits of technological change. For example, the use of robots has helped to ease the more laborious tasks of staff, as well as those of partners, at Jewel. This has resulted in smarter work and higher productivity. These advantages, in turn, help to sustain the future of Jewel in particular and the airport at large. The ultimate beneficiaries are Singaporean workers. This is a truism in normal times. It is more difficult to accept during abnormal periods of economic history. However, the truth is that only a higher-level combination of human and machine labour will enable the Singaporean worker to hold his own against the global competition, which has been sharpened by the assault of Covid-19.

The challenge lies in getting workers to buy into that greater purpose when their immediate needs are so insistent. The danger is that for some, if not many, vulnerable workers, the gig economy might appear to deliver the goods immediately. There is no doubt that the gig economy, whether in Singapore or elsewhere, is here to stay, but it must not be confused with the value and contributions made by the mainstream economy. The continuous impetus for skills improvement and productivity-driven growth that characterises mainstream activity provides the best protection against unemployment and unemployability. The workers of Singapore, a nation of survivors, must be ready to tap technology if they are to stay ahead in the next lap of an unending journey.

Source: The Straits Times, 03 Sep 2020

The changing structure of the economy and/or the changing production methods will displace some workers. **Many of such displaced workers may not be easily and readily be absorbed into other industries as they may not have the skills demanded by these industries (occupational immobility)**, thus, due to the **skills mismatch** and the inability to acquire the new skills required by other industries, they remain unemployed. This phenomenon is termed as **structural unemployment**.

### What is occupational immobility?

**Occupational immobility** refers to the situation where people are unable to take up jobs in another industry or occupation because they lack relevant skills or education.

*What are some possible causes of occupational immobility?*

- Employers are often reluctant to provide training for fear of workers moving to another firm.
- They are also reluctant to train older workers as the number of years they have left to work for the firm is shorter than that of a younger worker.
- Workers may also be reluctant to take up training because they are unable to afford the direct training costs and the opportunity costs incurred due to the income forgone while they are being trained.
- Structural unemployment could occur as a result of a depletion of mineral deposits or forest reserves.
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Hence, workers may become structurally unemployed, as their skills are no longer needed / become obsolete. As such, workers who are displaced in contracting industries may not have the skills necessary to join expanding industries, leading to structural unemployment.

### 1.2.3 Frictional Unemployment

**Definition:** *Frictional unemployment* occurs during the time required to match qualified job seekers with available job openings.

Frictional unemployment is associated with the normal turnover of labour. It tends to be short term in nature.

Job seekers need time to search for employment opportunities, and employers need time to find suitable employees due to **imperfect information** on their end. For example, people who leave their jobs, either voluntarily or involuntarily (retrenched or dismissed) and fresh graduates could be unemployed for a period of time while they are looking for a new job. This is due to imperfect information in the labour market. Employers are not fully informed about what labour is available; and job seekers are not fully informed about what types of jobs are available.

Some form of frictional unemployment is inevitable because the economy is dynamic in terms of changing demand for labour among different firms, and sometimes due to the existence of a mismatch between jobs available and personal choices of individuals.



### Self-Assessment 1

Economy added 204,000 jobs in October; unemployment rate ticks up to 7.3 percent

The U.S. job market finally seems to be picking up — but for a shrinking share of the population.

The Labour Department reported that the nation's economy added 204,000 jobs in October, defying analysts' expectations of weak results even as the federal government shutdown bumped up the unemployment rate to 7.3 percent. Businesses in retail, hospitality, manufacturing and health care expanded their payrolls significantly. Estimates of hiring for the previous two months were revised upward.

But the number of people in the labour force fell in October as many simply gave up hope of finding a job. The percentage of people in the workforce is now at its lowest level in 35 years.

October's data underscored broader shifts in the American economy toward increasingly skilled labour. Nearly 11 percent of workers without a high school diploma were unemployed last month, according to government data, compared with just 4 percent of college graduates.

For many of the nation's 11.3 million unemployed workers, the outlook is not positive. About a third have been out of a job for six months or more, while 815,000 were officially classified as so discouraged by their prospects that they had stopped looking. The report showed that 720,000 people left the labour force in October, an unusually large decline.

There have been small signs of progress for those hardest-hit: The average length of unemployment has come down from its peak of nearly 41 weeks in 2011. But analysts worry that many of those workers have lost skills and connections that could help them land a new job.

In an interview, Labour Secretary Thomas Perez called for new spending on infrastructure and immigration reform to boost the economy and create new jobs. But he added that worker training is also needed to ensure that businesses can fill open positions.

Adapted from [www.washingtonpost.com](http://www.washingtonpost.com), 8 Nov, 2013

### Questions

"...Labour Secretary Thomas Perez called for new spending on infrastructure and immigration reform to boost the economy and create new jobs. But he added that worker training is also needed to ensure that businesses can fill open positions."

1. According to the article, what type of unemployment do you think exist in the US economy?

2. How would spending on infrastructure, having an immigration reform, and worker training alleviate the type of unemployment you have identified?

### 1.3 Effects of Unemployment

In this section, we will look at the effects of unemployment on the producers, the consumers (including the unemployed themselves) and the government.

#### 1.3.1 Effects of Unemployment on the Producers

- a) **Lower Wage Costs** – Unemployment increases the supply of labour available for firms to employ. This creates a downward pressure on wages as labour is less scarce and more people are willing to get a job at a slightly lower wage. This will have a positive effect on firms, as their variable costs. When variable cost decreases, assuming ceteris paribus, firm's profits will increase.
- b) **Larger Pool of Labour** – Unemployment creates a larger pool of employable labour, which gives firms more choices of who to employ. This allows them to choose workers with higher skills and more years of experience.
- c) **Lower Demand for Goods and Services** – High unemployment means a lot more people will have less disposable income. Therefore, spending on most goods and services will fall. As a result, firms will experience lower sales revenue. When total revenue decreases, assuming ceteris paribus, firm's profits will decrease.
- d) **Increase in Demand for Inferior Goods** – When unemployment increases, more people may start buying inferior goods because they have lower incomes. Sellers of inferior goods will see an increase in sales revenue. When total revenue increases, assuming ceteris paribus, firm's profits will increase.
- e) **Higher Training Costs** – While many firms benefit from lower wage costs, they may also have to spend more resources on training new employees who have been out of work for so long. Such training results in an increase in employment costs in most firms.

#### 1.3.2 Effects of Unemployment on the Consumers

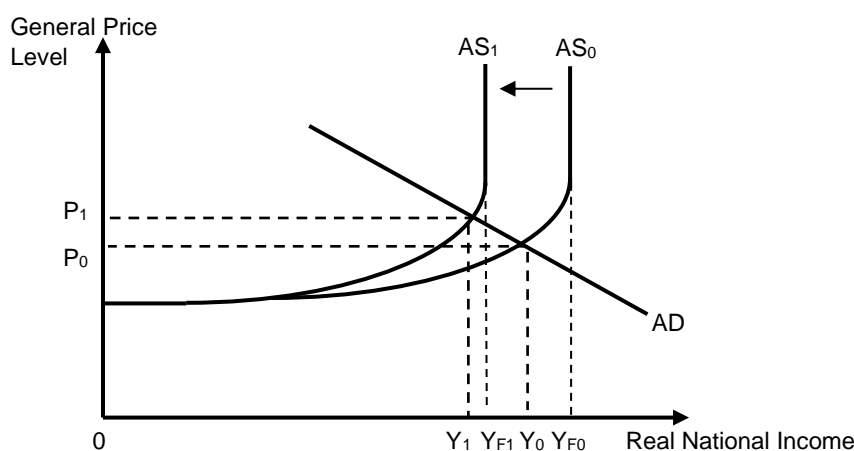
##### **Lower SOL**

- **Non-material aspect** – Individuals who lose their jobs consequently have no income and sense of security. There will be increase in stress level which will worsen the quality of life for the unemployed, This could lead to a decrease in happiness index of the country. Also, associated with unemployment is a loss of self-esteem and other negative effects including heart diseases, suicide, and mental illnesses. This may lower life expectancy, which reduces HDI. The deterioration of quality of life would also lead to a *lower non-material standard of living*.
- **Material aspect** – When unemployment rate increases, more individuals will not have an income. With the loss in income, purchasing power falls, and thus, consumption falls. Savings also fall, which may lead firms to be pessimistic about investments. This may hinder future economic growth and hence future material SOL of consumers.

### 1.3.3 Effects of Unemployment on the Government

- a) **Reduces actual and potential growth.** - As unemployment remains high, there will be a fall in consumer confidence, causing a decline in the willingness of households to spend and households build up their precautionary savings. Therefore,  $C$  falls. This could lead to a further fall in  $AD$  and a larger fall in national income and negative actual growth.

In the long run, if workers are unable to get a job, they will become discouraged. Discouraged workers are no longer willing to seek employment, hence they fall out of the labour force. This causes a reduced quantity of labour in the economy. Also, when people remain unemployed for long periods, their skills may deteriorate. There is a fall in the quality of labour as well. The productive capacity of the economy shrinks, resulting in a fall in the LRAS, denoted by a leftward shift of the LRAS curve (Figure 2). The full employment level of output falls and there is negative potential growth.



**Figure 2: Decrease in LRAS**

- b) **Worsens the budget balance**

- **Lower Tax Revenues** – As the number of persons employed falls, there will be fewer people earning enough income to pay income taxes, resulting in the government receiving lower income tax revenue.
- **Higher Welfare and Training Costs** – Fewer people will be working and more people will be claiming benefits. In addition, governments will need to spend on retraining the unemployed, equipping them with the right skills so that they might be employed by firms which require workers with the relevant skill sets. This creates a drain on the government's finances as they have to spend more on benefit payments and less on other areas of the economy (opportunity cost).
- **Overall:** A fall in the tax revenue and increase in expenditure by the government will increase the budget balance and worsen the public debt.

- c) **Lower social stability-** Unemployment is linked to a lower level of social stability in the economy in terms of higher incidence of domestic violence and crime (e.g. burglary or street violence)

Unemployment will affect the distribution of income depending on the factors unemployed. If there is an increase in the quantity of labour unemployed, there will be a more unequal distribution of income (assuming that labour is in a lower income group than other factor owners). In addition, an increase in the unemployment of certain groups of workers (e.g. blue-collar workers) will lead to a more unequal redistribution of income. This may lead to social discontent and unrest in society. This has an impact on **all parties in the society**. In particular, it may decrease the non-material standard of living of the people in the country and incur higher law enforcement costs by the government.

- d) **Inefficient use of scarce resources-** Unemployment represents an inefficient use of scarce resources. If there are unemployed resources within the economy, this means that the economy is operating within the production possibility curve (PPC). This leads to national output being produced below potential (i.e., loss of **potential national output**). There is the problem of productive inefficiency.



#### Self-Assessment 2:

Given the effects of unemployment, how would other macroeconomic goals such as economic growth or inflation be affected?

## 1.4 Unemployment in the Context of Singapore

Over the last 3 decades, Singapore has experienced 4 periods of economic downturn during which unemployment saw a sustained decline.

<b>Recession</b>	<b>Date</b>	<b>Singapore's Unemployment Rate</b>
<b>The Asian Financial Crisis</b>	July 1997 - December 1998	2.5%
<b>The 9/11 Recession</b>	March 2001 - November 2001	2.7%
<b>2008 Global Financial Crisis</b>	December 2007 - June 2009	2.2%
<b>The COVID-19 Recession</b>	February 2020 - Ongoing	3.0% (Year 2020)

### Major economic events affecting Singapore

#### **1997-1998: Recession caused by the Asian Financial Crisis**

Unemployment rate increased to 3.3% because of the Asian Financial Crisis, which began in Thailand in July 1997 with the financial collapse of the Thai baht. The Thai government was forced to float the baht due to lack of foreign currency to support its fixed exchange rate, cutting its peg to the US\$, after exhaustive efforts to support it in the face of a severe financial overextension that was in part real estate driven.

As the financial crisis spread, the economy of Singapore dipped into a short recession. The short duration and milder effect on its economy was credited to the active management by the government. The timing of government programs such as the Interim Upgrading Program and other construction related projects were brought forward. Instead of allowing the labour markets to work, the National Wages Council pre-emptively agreed to Central Provident Fund cuts to lower labour costs, with limited impact on disposable income and local demand. In less than a year, the Singaporean economy fully recovered and continued on its growth trajectory.

#### **2001: Recession caused by Dot.com bust and September 11 attack**

The slowdown in the US economy, Sept 11 attack and the global electronics industry downturn caused unemployment to rise due to the fall in Singapore's export demand, given that electronics make up one of Singapore's top exports and the US is one of Singapore's largest trading partners.

#### **2008-2009: Recession Caused By Global Financial Crisis**

The increase in unemployment during this recession was smaller in magnitude compared to the previous recession, partly because the rise in unemployment in manufacturing was offset by a decrease in unemployment in other sectors such as healthcare, construction and tourism (due to the construction of the two Integrated Resorts in Singapore).

### **2016: Tech Disruption**

While the natural rate of unemployment has remained relatively stable at about 2% since 2009, the structural changes in the Singapore economy threatens to push up unemployment rates. The Singapore economy is increasingly moving towards higher value-added, niche sectors – such as medical technologies, data analytics – that require specialised skills. Unrelenting technological change has also rendered old skills obsolete. Such disruptive changes have hit almost every industry, and jobs are evolving faster than ever. The resulting skills mismatch leaves the laid-off workers, especially the Professionals, Managers, Executives and Technicians (PMET) struggling to find new jobs, resulting in structural unemployment.

### **2020: Covid-19 Pandemic**

Due to the Covid-19 pandemic in 2020, the unemployment rate in Singapore rose to around 4.38 percent in 2020 from 4.11 percent in 2019, climbing past the high 3.3 per cent recorded in September 2009 during the global financial crisis. Non-professionals, managers, executives and technicians (PMETs) experienced a higher jobless rate compared to PMETs, as industries more affected by COVID-19 had a greater proportion of PMETs. Demand for labour was weak as companies and workers operated in an uncertain economic environment. The tourism sector, which account for 4.1% of GDP in 2017 and support 164000 jobs, suffered greatly as travel-related activities were completely muted.

The Singapore government has deployed about S\$100 billion (\$73 billion) in fiscal stimulus, including wage subsidies and rent relief, as well as longer-term efforts to digitise business and retrain retrenched workers.

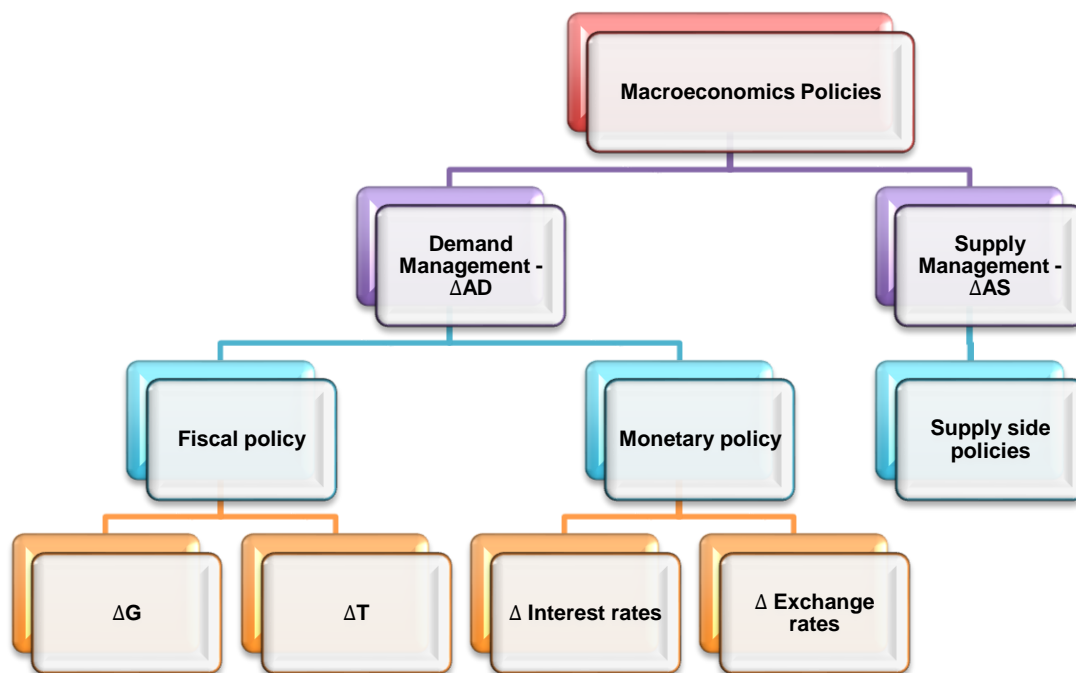


## 2 MACROECONOMIC POLICIES IN ADDRESSING UNEMPLOYMENT

This segment serves to explain the various policy options that the government can carry out to resolve **high unemployment**, depending on the **type of unemployment and the cause of unemployment**.

These macroeconomic policies that can address unemployment include:

- **Demand Side Policies**
  - **Fiscal Policy**
  - **Monetary Policy (centered on Interest rate)**
  - **Monetary Policy (centered on Exchange rate)**
- **Supply Side Policies**



Demand side policies attempt to affect the aggregate demand to achieve the macroeconomic objectives while supply-side policies attempt to affect the aggregate supply.

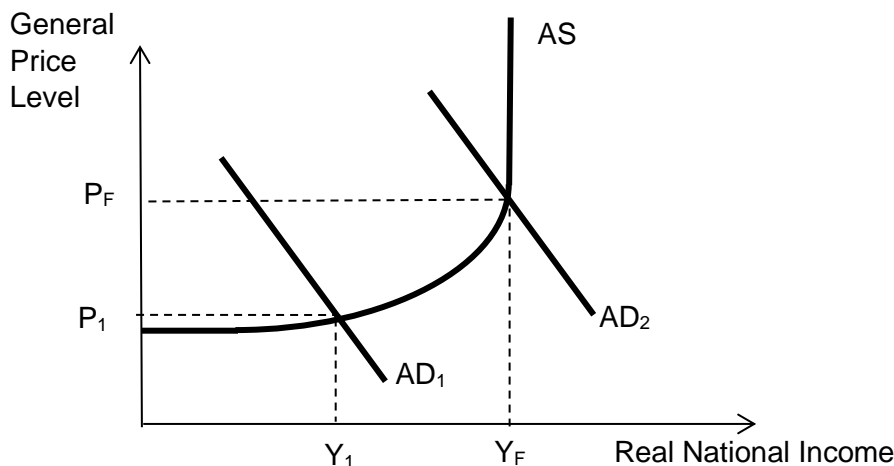
For each of the policies, you have got to learn:

- 1) **Mechanism-**  
Economic analysis (with diagram) on how the policy solves the problem/achieves the aims (You can use the A.S.A.P. framework as a guide)
- 2) **Evaluation of policy-** **Advantages and Disadvantages of the policy**  
Examination questions will require you to evaluate policies, so you are expected to know some strengths and limitations of each macroeconomic policy. This is summarised for you via the SUNART acronym.

## 2.1 Fiscal Policy in Achieving Low Unemployment

The two main tools of fiscal policy are: **government expenditure (G)** and **taxation (T)**. Taxes influence the economy by determining how much money the government has to spend (through government revenue) in certain areas and how much money individuals have to spend for consumption.

### 1) Mechanism



**Figure 3: Effects of Expansionary Fiscal / Monetary Policy**

Acronym	Steps	Description
A	2. AD/AS Factor and Component	The government can <b>increase government expenditure (G)</b> and reduces <b>direct taxes (T)</b> . The reduction in income tax increases disposable income, which then results in a rise in consumers' purchasing power and <b>increase consumption (C)</b> . Any reduction in corporate tax increases post-tax profits and <b>increase investment expenditure (I)</b> .
S	3. SHIFT of AD/AS	Referring to Figure 3, the effect of increase in AD can be seen as a rightward shift of $AD_1$ to $AD_2$ .
A	4. ADJUSTMENT process	Assuming the economy is not at full capacity, firms will employ more factors of production to increase production of output. This causes the increase in national income, which will increase income-induced consumption and result in further increases in AD.  This trigger successive rounds of increases in national income and income-induced consumption. At each round, the increase in both gets smaller. The multiplier process ends when the increase in national income is too small to generate further increases in income-induced consumption.

		Due to the multiplied increase in Real output, there will be an increase in production. The derived demand for all factors of production including labour will also increase.
<b>P</b>	<b>5. END POINT</b>	Therefore, when AD and real output increases, demand-deficient unemployment will decrease.

Note: The use of **indirect** taxes, as opposed to direct taxes, will **not** affect AD as it affects cost of production and therefore SRAS (affects producers directly, paid for by taxpayers indirectly).

## 2) Evaluation of Policy

<b>State of Economy</b>	<p><b><u>Consumer and Investor Confidence</u></b></p> <ul style="list-style-type: none"> <li>The effectiveness of an expansionary fiscal policy to increase the level of AD may be significantly reduced if consumers and producers have a <b>pessimistic outlook of the economy</b>. Even though there may be a tax relief, firms may not be willing to undertake investment due to lower expected returns (profits) from investment.</li> <li>For instance, given the Covid-19 pandemic and the uncertainties revolving the future, it may be challenging to convince producers to hire workers in order to get back on track with the production of goods and services.</li> </ul>
<b>Nature of Economy</b>	<p><b><u>Size of Multiplier</u></b></p> <ul style="list-style-type: none"> <li>Fiscal policy, like all other demand management policies that address AD – works to increase RNY, and achieve economic growth through the multiplier effect. Hence, fiscal policy will be more effective for a country with a larger multiplier (K) and less effective for a country with a smaller K.</li> <li>Singapore has a significantly smaller multiplier as compared to the US due to a significantly smaller marginal propensity to consume (MPCd). This is due to Singapore's high marginal propensity to import (MPM) and marginal propensity to save (MPS). This means that to achieve the same increase in RNY, the Singapore government has to increase its G and reduce its T by a greater extent relative to the US government. Thus, fiscal policy in Singapore would be less effective relative to the fiscal policy in the US if both governments tried to inject the same amount of expenditure into the economy to promote economic growth.</li> </ul>
<b>Unintended Consequences</b>	<p><b><u>Crowding Out Effect</u></b></p> <ul style="list-style-type: none"> <li>Crowding-out effect occurs when an increase in government spending due to an expansionary fiscal policy reduces other types of spending such as investment spending by firms and consumer spending so that overall AD does not increase at all (full crowding-out effect) or increase to a small extent (partial</li> </ul>

	<p>crowding-out effect). Discretionary fiscal policy therefore, becomes less effective at stimulating economic growth and at reducing unemployment.</p> <ul style="list-style-type: none"> <li>Assuming the government finances its spending by borrowing from the private sector, it essentially competes with firms/households for a fixed pool of loanable funds. As such, the demand of loanable funds increases, driving interest rates up. The higher cost of borrowing reduces borrowing by firms/households leading to reduced investment spending and consumer spending respectively which will partially offset the increase in AD due to the higher G.</li> </ul>
<b>Ability</b>	<p><b><u>Accumulated Debt</u></b></p> <ul style="list-style-type: none"> <li>Fiscal policy is less effective for country that has a high accumulated debt. They may not be able to increase G or decrease T extensively</li> </ul> <p><b><u>Inflexibility of government expenditure</u></b></p> <ul style="list-style-type: none"> <li>The government has multiple priorities and may divert its resources to fund many competing priorities. Thus, it may not be feasible to divert resources from other areas to increase G.</li> </ul>
<b>Root cause (NEW)</b>	<ul style="list-style-type: none"> <li>While the expansionary fiscal policy can help reduce demand-deficient unemployment during an economic downturn, these cannot reduce structural unemployment. Therefore, the effectiveness of an expansionary fiscal policy depends on the type of unemployment that occurs i.e. the <b>root cause</b> of unemployment.</li> </ul>
<b>Time</b>	<p><b><u>Time lags</u></b></p> <p>Time lags may occur in the form of:</p> <ul style="list-style-type: none"> <li><b>Recognition lag:</b> Identification of the problem by the government and the collection of reliable statistics may take time. On top of this, governments sometimes have to work with limited information because aggregating information on the whole economy is a mammoth task.</li> <li><b>Implementation lag:</b> This is especially so in a democratic system whereby any changes in the budget needs to go through the congress/parliament and debated on, before it can be implemented.</li> <li><b>Impact lag:</b> The time needed for the full impact of the fiscal policy to work through the entire economy through the multiplier process may not be instantaneous.</li> </ul> <p>Between these time periods, circumstances in the economy could change (e.g. demand for exports surge). With AD now rising due to two sources, higher G and higher X, the economy might suffer from inflation. Thus, because of its time lags, expansionary fiscal policy could destabilise the economy rather than stabilise it.</p>

## Overall Effectiveness of Fiscal Policy in Achieving Low Unemployment

The government can use an expansionary fiscal policy to reduce the root cause of demand deficient unemployment. While increase in government expenditure and reduction in tax will increase consumption and investment, eventually leading to a multiplied increase in AD and real national income, the overall effectiveness may be limited when economic agents are pessimistic about future growth prospects.

Note: For the purpose of discussion in examinations, assess the advantages and disadvantage for each policy specific to the given context of the question. Make an overall evaluation that is a reasoned stand relevant to the question.

## 2.2 Monetary Policy (Interest Rates) in Achieving Low Unemployment

### 1) Mechanism (Refer to Diagram in the Fiscal Policy section)

Acronym	Steps	Description
A	1. AD/AS Factor and Component	<p>An expansionary monetary policy via a <b>reduction of interest rates</b> would have both internal and external effects.</p> <p><b>Internal Effects:</b>  <b><i>Lower interest rates will also encourage consumption</i></b> as it directly reduces the cost of borrowing for purchases of consumer durables. Moreover, lower interest rates lead to lower returns to savings and lower opportunity cost of spending. Consumers will thus be more willing to spend. This incentivizes households to consume rather than to save, hence consumption would rise.</p> <p>Recall in the Intro to Macro Analysis, we have learnt that <b><i>a firm will only invest if the expected rate of returns on investment (MEI) is greater than the current rate of interest.</i></b> With lower interest rates, investments are likely to be more profitable (with the lowered cost of borrowing), encouraging an increase in investments.</p> <p><b>External Effects:</b>  The fall in interest rates will lead to an outflow of hot money in search for higher interest rates in other countries. This will then lead to an increase in supply of the currency in the forex market. Thus, there will be a depreciation of the exchange rate. With a weaker exchange rate, exports are cheaper in foreign currency terms. This will lead to an increase in demand for our exports. Imports will be more expensive in local currency terms. This will lead to a fall in quantity demanded of the imports, thus leading to an increase in X and a fall in M. (X-M) will then increase.</p>
S	2. SHIFT of AD/AS	Referring to Figure 3 above, this results in AD increasing, which can be seen as a rightward shift of AD <sub>1</sub> to AD <sub>2</sub> .

		<b>Note:</b> Be reminded that <b>demand-deficient unemployment</b> is the only type of unemployment that can be accurately reflected on an AD/AS diagram.
<b>A</b>	<b>3. ADJUSTMENT process</b>	<p>Assuming the economy is not at full capacity, firms will employ more factors of production to increase production of output. This causes the increase in national income, which will increase income-induced consumption and result in further increases in AD.</p> <p>This triggers successive rounds of increases in national income and income-induced consumption. At each round, the increase in both gets smaller. The multiplier process ends when the increase in national income is too small to generate further increases in income-induced consumption.</p> <p>This results in a multiplied increase in RNY from <math>Y_1</math> to <math>Y_F</math>. With a rise in production, the <b>derived demand for all factors of production including labour increases</b>.</p>
<b>P</b>	<b>4. END POINT</b>	Thus, demand-deficient unemployment decreases, achieving lower unemployment.

## 2) Evaluation of Policy

<b>State of Economy</b>	<p><b>Consumer and Investor Confidence</b></p> <ul style="list-style-type: none"> <li>Consumption and investment are likely to be <b>interest insensitive</b> (or inelastic) during a severe economic downturn as firms and households are unlikely to borrow when the economic outlook is very poor.</li> <li>Cutting interest rates may not lead to economic growth. Expansionary monetary policy may fail if confidence is very low, and people may not want to invest or spend, despite lower interest rates.</li> <li>Where confidence levels are low and the demand for investments are interest inelastic, a fall in interest rates from would cause investment to increase less than proportionately, limiting the effectiveness of the expansionary interest rate policy in stimulating the economy.</li> </ul> <p><b>Liquidity Trap</b></p> <ul style="list-style-type: none"> <li>Another limitation is the <b>liquidity trap</b>. At very low levels of interest rates, an increase in money supply will no longer cause the interest rates to fall further. This is because the demand for money becomes perfectly interest elastic.</li> </ul>
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	<ul style="list-style-type: none"> <li>Since interest rates do not fall further, conventional monetary policy does not stimulate C and I and thus, AD. Thus, monetary policy loses its expansionary effect.</li> </ul>
<b>Unintended Consequences</b>	<p><b>Asset Bubbles</b></p> <ul style="list-style-type: none"> <li>An asset (property and shares) bubble occurs when the market price of an asset exceeds its rightful price.</li> <li>Lower interest rates reduce costs of borrowing, which boosts investment spending. Thus, investors invest in various types of assets, spiking asset prices.</li> <li>The accelerated increase in asset prices attracts many to borrow and invest. However, when the asset prices eventually fall when the bubble bursts, many then suffer huge losses and incurs high debts, leading to serious recessionary pressures and economic hardships.</li> </ul> <p><b>Rising asset prices and impacts on firms and consumers</b></p> <ul style="list-style-type: none"> <li>Rising property prices also impacts the affordability of housing and operating costs of firms which also have social and economic implications.</li> </ul>
<b>Nature of Economy</b>	<b>Multiplier Size- As per previous section</b>

### Overall Effectiveness of Interest Rate Policy in Achieving Low Unemployment

Expansionary monetary policy is generally more suited for combating cyclical unemployment rather than other forms of unemployment. This is because monetary policy is a demand management policy and affects the AD.

The use of monetary policy might create other problems, which may affect other aims. Expansionary monetary policies may lead to an expansion of output, resulting in demand-pull inflation. For example, with lower interest rates, there will be a rise in consumer spending and higher investment expenditure. When AD increases persistently, it can contribute to demand-pull inflation (unintended consequence)

Note: For the purpose of discussion in examinations, assess the advantages and disadvantage for each policy specific to the given context of the question. Make an overall evaluation that is a reasoned stand relevant to the question.

## 2.3 Monetary (Exchange Rate) Policy in Achieving Low Unemployment

### 1) Mechanism (Refer to Diagram in the Fiscal Policy Section)

Acronym	Steps	Description
A	1. AD/AS Factor and Component	The devaluation will lead to exports being cheaper in foreign currency terms. This will lead to an increase in demand for our exports. Imports will be more expensive in local currency terms. This will lead to a fall in quantity demanded of the imports, thus leading to an increase in X and a fall in M. (X-M) will then increase.
S	2. SHIFT of AD/AS	Referring to Figure 3 above, the rise in (X – M) will lead to an increase in AD, which can be seen as a rightward shift of AD <sub>1</sub> to AD <sub>2</sub> .  <i><b>Note:</b> Be reminded that <b>demand-deficient unemployment</b> is the only type of unemployment that can be accurately reflected on an AD/AS diagram.</i>
A	3. ADJUSTMENT process	Assuming the economy is not at full capacity, firms will employ more factors of production to increase production of output. This causes the increase in national income, which will increase income-induced consumption and result in further increases in AD.  This triggers successive rounds of increases in national income and income-induced consumption. At each round, the increase in both gets smaller. The multiplier process ends when the increase in national income is too small to generate further increases in income-induced consumption.  This results in a multiplied increase in RNY from Y <sub>1</sub> to Y <sub>F</sub> . With a rise in production, the <b>derived demand for all factors of production including labour increases</b> .
P	4. END POINT	Thus, demand-deficient unemployment decreases, achieving lower unemployment.



## 2) Evaluation of Policy

<b>Unintended Consequences</b>	<p><b>Conflict between unemployment and inflation</b></p> <ul style="list-style-type: none"> <li>Achieving lower unemployment via depreciation can result in cost-push inflation (This will be taught in greater detail in the next set of lecture notes, Inflation). For countries that are dependent on imports as factor of production, such as Singapore, depreciation results in a higher price of these raw materials in domestic currency. This serves to increase firms' costs. Hence, with a higher cost of production, to maintain profits, firms will be willing to sell each level of output only at a higher GPL, thus passing on higher costs to consumers as higher prices, causing a fall in SRAS (SRAS shifts upwards) and driving general prices upwards. Hence depreciation to achieve actual growth could results in cost-push inflation and conflict with the macroeconomic aim of price stability.</li> </ul>
<b>Nature of Economy</b>	<p><b>Small and Open Economy VS Large and Less Open Economy</b></p> <ul style="list-style-type: none"> <li>Exchange rate policy would be effective if the economy is small and open, as it will be highly dependent on net export revenue as a key driver of economic growth. This is the case for Singapore as it is a highly open economy. When an economy is trade-dependent, (X-M) would form a significant proportion of AD. Thus, exchange rate policy would have a significant impact on the economy when there is depreciation, i.e. more likely to address a recession that is caused by external factors.</li> <li>In contrast, USA is a large and less open economy depending on domestic consumption as a key driver of growth. Its proportion of net exports relative to GDP is very small. Given a change in exchange rate, the impact of net export revenue and hence AD would be minimal.</li> </ul>
<b>Root cause (NEW)</b>	<ul style="list-style-type: none"> <li>While the expansionary monetary policy can help reduce demand-deficient unemployment during an economic downturn, these cannot reduce structural unemployment. Therefore, the effectiveness of an expansionary monetary policy depends on the type of unemployment that occurs i.e. the <b>root cause</b> of unemployment.</li> </ul>

### Overall Effectiveness of Exchange Rate Policy in Achieving Low Unemployment

In terms of achieving low unemployment, exchange rate policies are usually more appropriate for small and open economies like Singapore and Hong Kong because as they are more exposure to external uncertainties. Therefore, for most large and less open countries, the default monetary policy tends to be interest rate policy.

## 2.4 Supply-side Policies in Achieving Low Unemployment

Supply-side policies can be classified into two categories: ***Interventionist policies and Market-oriented policies.***

- Interventionist supply-side policies increase aggregate supply (AS) by countering the deficiencies found in markets.
  - Such interventionist supply-side policies help to improve the quantity, quality and mobility of factors of production. For example, government spending on SkillsFuture package that increases labour productivity.
- Market-oriented policies increase aggregate supply (AS) by “freeing up” markets.
  - Market-oriented supply-side policies are intended to encourage/promote entrepreneurship, competition, initiative and productivity. These include reducing red tape and regulations to curb the power of trade union.

Note: While demand management policies can generally be used to correct demand-deficient unemployment, **supply-side policies can generally be used to correct structural and frictional unemployment.**

### 1) **Mechanism**

#### **To reduce Structural Unemployment**

The government may engage in **interventionist supply-side policies** by increasing its expenditure in the areas of education and training/re-training programmes to reduce structural unemployment by bridging the gap between the skills of the workforce and the economy's needs.

In response to the Covid-19 slowdown, the Singapore government rolled out a slew of assistance and upskilling programmes under the SGUnited Jobs and Skills Package, supported by various agencies and institutions including SkillsFuture Singapore, for people looking for employment or making a career switch amid the Covid-19 crisis.

The SGUnited Skills Programme, for example, targets the early-to mid-career employees. They could participate in a full-time training programme conducted over six to 12 months. Such programmes help to reduce structural unemployment caused by mismatch of skills by ensuring that workers are upgraded with relevant skills.

- Skills mismatch between the skills demanded by employers and the unemployed is reduced
- Mitigates the issue of occupational immobility

The newly trained workers with upgraded skills can now find new jobs in current industries

Thus, structural unemployment is reduced, achieving lower unemployment.

**Note:** AD-AS framework ***cannot*** be used to explain supply side policies to address frictional and structural unemployment.

#### **To reduce Frictional Unemployment**

The government may reduce frictional unemployment by improving information infrastructure, such as the creation of job agencies to facilitate movement and transition between jobs, it can reduce frictional unemployment by shortening the time taken for workers to transit to the next job.

The government can provide better job information services and set up employment agencies, which give out information about job vacancies. For example, in Singapore, Workforce Singapore (WSG) and Community Development Councils (CDC) establish labour exchanges, organise job fairs and career seminars and legislate against excessive job-hopping.

In addition, in countries where geographical mobility may be an issue that has resulted in higher rates of frictional unemployment, the government may spend on infrastructure to build up facilities in more remote places and improve connections between cities to encourage more people to move.

Thus, frictional unemployment is reduced, achieving lower unemployment.

**Note:**

*While supply-side policies can help correct frictional unemployment, it cannot entirely eliminate frictional employment.*

*AD-AS framework **cannot** be used to explain supply side policies to address frictional and structural unemployment.*

**2) Evaluation of Policy (can add in unintended consequence- can widen income inequality?)**

<b>Ability</b>	<b>Requires large amounts of government funds</b>  The costs of providing training and subsidies/grants impose a burden on government funds. For example, the various care and support packages that the Singapore government introduced in 2020 necessitates drawing an amount of \$17 billion from past reserves. The lack of reserve will limit governments from funding measures aimed at reducing unemployment.
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<b>Root cause</b>	<p>When unemployment is caused by structural changes in the economy, the government can implement supply side policies to encourage training to reduce the skills mismatch in the economy. This will enable workers to gain skills and be employed in the sunrise industry.</p> <p>In the case of China, digital technologies continue to play a larger role in the economy. The disruptive change in the structure of the economy towards digital technologies lead to a mismatch of skills of workers in this sunrise industry. Thus, the government can increase educational and training opportunities in this industry via supply- side policies.</p> <p>If unemployment is caused by frictional unemployment due to imperfect information, the government can implement supply-side policies to provide job fairs, better infrastructure to ensure that information pertaining to the job market could be efficiently transmitted to reduce imperfect information in the job market.</p> <p>Although upgrading programmes may be in place to help workers find jobs, older workers tend to be more resistant to change and may find it difficult to upgrade or acquire new skills. Indeed, in the heart of the SkillsFuture national movement which promotes lifelong learning, every Singaporean must embrace the growth mind-set, soaking up new opportunities new skills and be excited to learn new things. Policies put in place to reduce structural unemployment could only work if the mind-sets of individuals remain open and positive.</p>
<b>Time Period</b>	Time lag, e.g. recognition lag, implementation lag and impact lag, uncertainty, political situation.

### Overall Effectiveness of Supply-side Policies in Achieving Low Unemployment

Supply-side policy is more effective at managing structural unemployment, and less effective at managing cyclical unemployment. This is because, supply-side policies require long-term structural changes to be made to increase AS in the economy. They have little relevance from the point of view of short-term economic management.

For example, when AD is very low (e.g. during the Covid-19 slowdown), an increase in the capacity of the economy is of no help in itself unless there is a corresponding increase in AD.

Thus, supply-side policy can often be used in conjunction with demand management policy (Fiscal and/or Monetary Policy) to deal with the problem at hand. It is important to note that the increase in AD must move in tandem with the increase in AS.

Note: For the purpose of discussion in examinations, assess the advantages and disadvantage for each policy specific to the given context of the question. Make an overall evaluation that is a reasoned stand relevant to the question.

**READING:**

More than 12,000 people placed in new jobs under SGUnited initiative  
The Straits Times, 03 Jul 2020



More than 12,000 people have been placed in new jobs since March under the SGUnited Jobs initiative (introduced as part of the supplementary Resilience Budget), Manpower Minister Josephine Teo said on Friday (July 3). This was a mix of Singaporeans and permanent residents, with Singaporeans as the majority.

The initiative was introduced in March as part of the supplementary Resilience Budget to help job seekers cope with the worsening labour market prospects amid the Covid-19 pandemic. "This is a tough time for job seekers and we fully understand their worries... The Covid-19 situation has evolved very quickly and its impact on the economy is quite severe and obviously the jobs at stake is something we are all concerned about."

The Government is rolling out a massive programme of career matching services, attachments and training places this year. "Those are the three keys that we promise to put into the hands of every Singaporean job seeker," said Mrs Teo. She explained that career matching is the first key which opens the door to a job. To make career matching services easily accessible, satellite career centres are being set up in every Housing Board town, and job ambassadors will head to malls and hawker centres.

During this period where employers are likely to be more conservative about hiring, a second key is attachment opportunities. This is so that people can learn new skills and acquire industry relevant company specific opportunities, helping them to prepare for new jobs when the economy picks up, added Mrs Teo.

The third key is training opportunities, so that people can make meaningful use of their time if they are waiting for job or attachment positions to open up. Securing jobs has been a recurring theme in the campaigning for the general election, especially as the economy grapples with the effects of the pandemic.

Close to 70 per cent of the 12,000 placements were in the public sector, including Covid-19 related, healthcare and digital positions, said Workforce Singapore, SkillsFuture Singapore, the Infocomm Media Development Authority, the Public Service Division and NTUC in a joint statement.

A breakdown was not provided in terms of temporary and permanent roles.

Mrs Teo also said that more than 16,000 opportunities are immediately available under the three arms of the SGUnited Jobs and Skills Package. These places include some 5,000 job vacancies from the public service and other publicly-funded sectors, and another 2,000 or so from the private sector in fields such as manufacturing, food and beverage, infocomm technology, logistics, healthcare and retail.

Of the vacancies, 80 per cent are roles which last at least 12 months, and two-thirds are for professionals, managers, executives and technicians, said Mrs Teo. Another 3,000 traineeships, or work attachments, are being offered by more than 300 organisations. Finally, there are more than 6,000 training places for mid-career workers at training providers such as NTUC LearningHub, Singapore Polytechnic and Temasek Polytechnic.

The SGUnited Jobs and Skills Package announced in May aims to support close to 100,000 job seekers this year by creating new vacancies, traineeships and skills training places. More details were also provided on Friday about a scheme for mid-career workers, called the SGUnited Mid-Career Pathways Programme. This will provide 14,500 traineeships and training programmes tailored to mid-career job seekers, so they can gain meaningful industry-relevant work experience while waiting for permanent jobs. They will receive a monthly training allowance of up to \$3,000 a month, of which 80 per

cent will be paid by the Government and 20 per cent by the organisation they are attached to.

Mrs Teo said the Government is particularly concerned about job seekers who are in their 40s and 50s. "They are mid-career, they have a wealth of experience, they've built themselves up and they've got a lot of hard work that they have invested, and we don't want them to be in a position of not being able to move forward in case they are displaced," she said.

Supporting mid-career and mature workers is a key focus of the National Jobs Council, its chairman, Senior Minister Tharman Shanmugaratnam, has said. The council was set up this year to grow jobs and training opportunities on an unprecedented scale amid the Covid-19 pandemic, and is overseeing the design and implementation of the SGUnited Jobs and Skills Package.

Mr Tharman was also at the career event on Friday, together with council members Ng Chee Meng, who is National Trades Union Congress secretary-general, and Douglas Foo, who is president of the Singapore Manufacturing Federation. At the event, which was the inaugural SGUnited Jobs and Skills Fair, job seekers could meet potential employers in person or virtually to find out about job and traineeship opportunities. There were also training providers present, some of which are technology companies with potential vacancies within their own firms.

Fresh graduates can also seek traineeships at a virtual career fair from now until July 12. Job seekers can also get career advice and job matching services at new SGUnited Jobs and Skills Centres around the island. Eight centres at community centres started operating on Wednesday, and another 16 will be set up by Aug 15. In addition, there are existing career services centres such as those operated by Workforce Singapore and e2i.

Mr Ng told reporters that the Government, employers and unions want to ensure jobs are accessible through the satellite career services centres being set up, and through job fairs in places such as Punggol, Sengkang and Hougang. "All these are to bring jobs within reach of Singaporeans. 100,000 is a big number, to make this real, reachable to residents is equally important," he said.

Under the training portion of the SGUnited Jobs and Skills Package, the SGUnited Skills programme will be rolled out for sectors with job opportunities as the economy recovers, such as advanced manufacturing, environmental services, construction and facilities management, security, and social services. Trainees will attend full-time courses run by institutes of higher learning, and can obtain industry-recognised certifications, said Friday's joint statement. They will receive a monthly training allowance of \$1,200 for the duration of their courses, which will be from six to 12 months. After government subsidies, the course fees will be \$500 for a six-month programme and \$1,000 for a 12-month programme, which can be further offset using SkillsFuture Credit. Career advice and employment assistance will also be provided to help trainees look for jobs in the relevant sectors.

Source: <https://www.straitstimes.com/singapore/manpower/more-than-12000-people-placed-in-new-jobs-under-sgunited-initiative>

## Glossary

- **Unemployment** is the situation where those who are capable of and willing to work but are unable to find suitable employment.
- The **labour force** refers to all people within a country who are economically active, they include those who are working and actively seeking employment.
- **Demand-deficient unemployment** is caused by the fall in or lack of aggregate demand (AD) in the economy.
- **Structural unemployment** is caused by a mismatch of skills when the skills of the unemployed do not match the skills demanded by the employers.
- **Occupational immobility** refers to the situation where people are unable to take up jobs in another industry or occupation because they lack relevant skills or education.
- **Frictional unemployment** occurs during the time required to match qualified job seekers with available job openings.

## Selected Past Year A Level and Prelim Exam Essay Questions

Note: Many questions in the A level for Macroeconomic Policies involve content from previous topics (Macroeconomic Aims & Indicators, Macroeconomic Issues & Problems) as well as future topics (e.g., Interconnectedness of Problems & Policies). The questions presented here are no exceptions. You may not be able to provide a complete answer with merely the content knowledge in this set of notes.

### Question 1: 2021 - H2 Paper 2

The rate of unemployment in more than 50 of the world's countries, including several European countries, exceeds 10%. Governments face a difficult decision about whether income tax rate cuts are the most effective policy measure to reduce unemployment to more acceptable levels.

- (a) Explain how a reduction in the rate of income taxes paid by workers and firms might have consequences on an economy's aggregate demand and aggregate supply. [10]
- (b) Discuss whether a reduction in the rate of income taxes is likely to be the best policy measure to reduce high unemployment in a country. [15]

### Question 2: 2017 - H2 Paper 2 (modified)

High rates of unemployment remain a major issue in many economies of the world. An understanding of various causes of unemployment is needed in order for a government to decide on the economic policies that would help its economy achieve full employment.

- (a) Explain the various causes of unemployment. [10]
- (b) Discuss the economic policies that would help to achieve full employment in today's globalised world. [15]

**Question 3: 2016 – H2 Paper 2**

- (a) Explain why macroeconomic policy decision-making is made more difficult by possible conflicts between government objectives [10]
- (b) Assess the relative effectiveness of the alternative macroeconomic policies that the Singapore government could adopt to maintain a low rate of unemployment. [15]

**Question 4: ASRJC Prelim 2020**

More than 3 million people will become unemployed worldwide in the next two years, making existing jobs vulnerable and fuelling potential social unrest as the global economy slows.

- (a) Explain why an economy seeks to attain low unemployment. [10]
- (b) Discuss the various causes of unemployment for different countries. [15]

**Question 5: NYJC Prelim 2019**

The Singapore economy must prepare for major shifts in the economy in the upcoming decade. Firstly, the emergence of new technologies such as artificial intelligence, are reshaping the economy and jobs, and secondly, several important trading partners have turned to protectionism in reaction to domestic pressures. In addition, Singaporeans must also be prepared for the challenge of a more thrifty society with an ageing population. (Adapted from Singapore Budget Speech 2018)

- (a) Explain how the above-mentioned factors might affect Singapore's unemployment rate. [10]
- (b) Discuss whether demand-side policies are the best economic solutions to respond to the unemployment problem arising from the major shifts identified above. [15]