



NYJC

TUTORIAL QUESTIONS

How the Macroeconomy Works Economic Problems – Unemployment

Economic Problems - Unemployment

Essential Question:

What is the significance of falling or rising unemployment?

Key Questions:

1. **How is unemployment measured?**
2. **What are the different types of unemployment?**
3. **What are the costs of unemployment?**
4. **What are some policies used to address the different types of unemployment?**

Review on Economic Problems - Unemployment

Below are general issues you need to know before attempting the tutorial questions. Please put a tick in the column, to indicate that you are aware of the issue and understand it clearly. Else do revise the issues before attempting the essay and case study questions.

Economic Problems - Unemployment	Tick
1. What is unemployment?	
2. How is it measured?	
3. What are the different types of unemployment?	
4. What are the main types of unemployment in Singapore?	
5. What are the main causes of unemployment in Singapore?	
6. What is the government objective in relation to unemployment?	
7. What are the effects of falling or rising unemployment?	
8. How can the unemployment rate be used to assess the economic performance of a country?	
9. What are the limitations of using the unemployment rate to assess the economic performance of a country?	
10. How can labour productivity impact unemployment?	
11. How can demand side policies be used to address unemployment?	
12. How can supply side policies be used to address unemployment?	

SECTION 1 – Economics ALIVE!

Article #1: Why is unemployment rising?

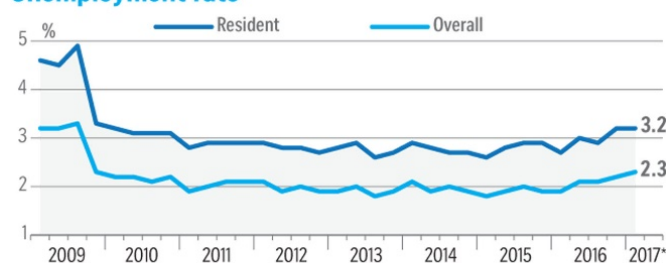
The unemployment rate crept up from 2.2 per cent last December to 2.3 per cent in March, hitting the highest level since December 2009.

Back then, Singapore was recovering from the global financial crisis. This year, on the other hand, economists are upbeat about prospects after stronger-than-expected growth last year. The rate, which is calculated over three-month blocks, measures the percentage of people who can and want to work, but cannot find employment.

There are three key types of unemployment.

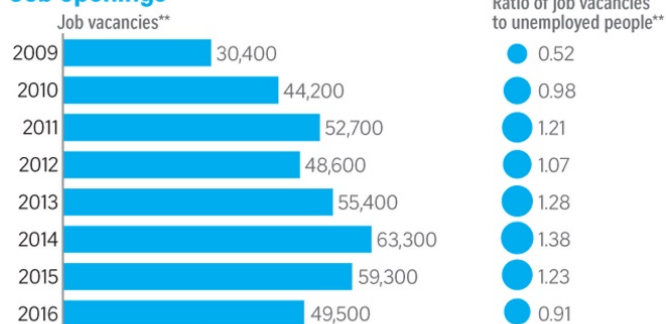
Labour market changes over the years

Unemployment rate



Note: *Figures for 2017 are preliminary. Rate is seasonally adjusted.

Job openings



Note: **Figures are annual averages. Ratio is seasonally adjusted.

Source: MOM SUNDAY TIMES GRAPHICS

The first is frictional unemployment. This happens when workers change jobs. To put it in perspective, this is not a big worry. There are always workers changing jobs, regardless of the state of the economy.

This is why economists regard full employment as when all who want to work can find work at prevailing wage rates. Full employment does not mean zero unemployment.

What is more worrying is the second type of unemployment, one that is caused by business cycles. Singapore is a small and open economy that is highly dependent on exports. However, exports in Singapore have been rising at a slow rate over the last few quarters due to several reasons. China, the United States and the European Union are the largest export markets of Singapore. However, China has been experiencing slow growth which is largely due to the unsustainability of the

export-driven and investment-driven economic growth strategy. Most of the economies in the European Union have come to a standstill and this is because of the less aggressive use of fiscal policy and monetary policy in the aftermath of the 2008-2009 Global Financial Crisis. The United States grew by only 2.1 per cent in the previous quarter. This is largely due to the weak state of the world economy.

There is a third cause at play - structural unemployment. This happens when workers are displaced by fundamental and irreversible shifts in the economy. The story of Singapore's economic progress is a continuous tale of structural changes, from the hotchpotch of factories that sprang up in Jurong in the 1960s to becoming the world's largest producer of hard disks in the 1980s, to becoming a global financial centre. If workers cannot adapt as jobs in the economy change, structural unemployment will take root.

It is almost impossible, from a statistical point of view, to break down unemployment rates according to whether they are frictional, cyclical or structural.

But what is known is that structural unemployment is a big deal in Singapore. If it is not dealt with, the ranks of jobless workers will swell.

Source: The Straits Times, 17th May 2017

Discussion:

1. Explain what is meant by unemployment.

An economic condition marked by the fact that individuals actively seeking jobs remain un-hired. Unemployment is expressed as a percentage of the total available work force.

2. What is full employment? How is the concept of full employment related to the economic concept of unemployment?

Full employment indicates a non-zero, low rate of unemployment that is compatible with price stability, when all those who are able and willing to work have gained employment.

3. Using AD/AS analysis, explain how slow growth in China, the United States and European Union affects Singapore's unemployment rate.

Due to the slow growth experience by China, the United States and European Union, consumers in these countries may see a slower rise in income and hence purchasing power. These consumers may not be very optimistic about the future and be more cautious in their spending. Thus, their demand for foreign goods may fall. This in turn reduces the demand for Singapore's exports and export revenue (X) falls. With a fall in X, this will lead to a fall in AD and real national income will fall, ceteris paribus. With a fall in the production of goods and services, the demand for resources (including labour) will fall, causing unemployment rate in Singapore to increase (since labour is a derived demand). This type of unemployment is known as cyclical unemployment.

4. With reference to the figure provided in the article, explain one possible reason why unemployment rate did not fall from year 2011 to 2015 although there were more jobs created?

The jobseekers

- May find the pay or working conditions unattractive
- Do not know where the openings
- May not have the right skills (Mismatch of skills)

5. What are some of the costs of unemployment?

Rising unemployment will mean falling disposable income, causing AD to fall due to falling consumption expenditure. This reduces the country's actual growth rate and hence a fall in output. As labour is a derived demand, the falling output would cause a further increase in unemployment. Unemployment feeds on unemployment, regardless of the type of unemployment incurred. Consumers will experience a fall in purchasing power, leading to a fall in standard of living and contractionary effects on the economy.

High unemployment has an impact on government expenditure, taxation and the level of government borrowing each year. An increase in unemployment results in higher benefit payments and lower tax revenues. When individuals are unemployed, not only do they receive benefits but also pay no income tax. As they are spending less, they also contribute less to the government in indirect taxes. The higher government expenditure and lower tax revenue can worsen the budget position of the economy.

6. Explain possible measures to solve the three key types of unemployment as mentioned in the article.

Frictional Unemployment:

Government can establish employment agencies to provide information on job prospects in other industries to the unemployed, possibly through national newspapers or online databases. These agencies could also actively organize job fairs to bring potential employers and employees together. An example of such an agency in Singapore is the Employment and Employability Institute (e2i).

Structural Unemployment:

Government can provide and fund education, retraining facilities and assistance to the structurally unemployed, so that they can obtain the skills required by the expanding industries in the economy. This adjustment of government expenditure is a form of fiscal policy (Supply-Side). A government agency that provides such retraining services is the Singapore Workforce Development Agency (WDA).

As labour equip themselves with new skills, this will help raise the productive capacity of the economy and cause LRAS to rise. With LRAS rising, the real national income will rise and unemployment rate will fall as labour is a derived demand.

Cyclical Unemployment:

Singapore can seek to sign more free trade agreements (FTAs) with other countries to diversify the risk so that the demand for exports will not fall by a large extent when some of her trading partners face decreasing/slow growth. When FTAs are signed, trade barriers are removed and foreigners will deem Singapore's goods to be relatively cheaper. Hence, they will purchase more exports and X will rise. This will lead to rising AD and hence real national income will rise as well. Unemployment rate will thus fall due to labour being a derived demand.

7. Identify the unintended consequences of the measures that you have suggested in question 6.

Establishing employment agencies to provide information on job prospects:

The setting up of employment agencies could put a strain on the government budget. Campaigns to improve work attitude and team bonding would also result in indefinite outcomes. Hence, this may not be an effective solution.

Provision of funds for education and retraining:

Implementing these programmes would create a large strain on government budget. This is also a long-run solution as it would take time for the unemployed workers to be retrained or re-educated to fit the current requirements of the economy. Due to the time lag, it may not be a good solution as the economy may once again face structural changes and hence the workers may again be structurally unemployed. This time lag could be made worse if the workers that need to be retrained are not willing to participate in the programme.

Signing of FTAs to raise X:

The whole process of drafting and implementing the FTAs takes a long time and hence, unemployment rate may still continue to rise in the short run.

SECTION 2 – Case Studies

CSQ 1: Uncertain Future for the UK Economy [ACJC 2013] [Suggested Answer on Page 7-15T]

Extract 5: UK not out of the woods yet

At one level, today's UK trade figures were encouraging. Exports to countries outside the European Union were up 2% to a record high as UK firms started to penetrate some of the world's faster-growing markets. The share of British exports going to the EU dropped to just over 45%, its lowest level since modern records began in 1988. Overall export volumes fell in the first quarter while imports rose, strongly suggesting that trade was a drag on UK growth in the first three months of the year.

This makes it easier to point the finger at the Eurozone as the reason for Britain's stuttering economic recovery. However, a breakdown of GDP showed that weak private consumption shaved 0.5 points off growth and lower government consumption a further 0.3 points - it has been the domestic side of the economy that has been holding the UK back, not overseas demand.

Adapted from Guardian.co.uk, 2012

Figure 3: UK Real GDP Growth Rate

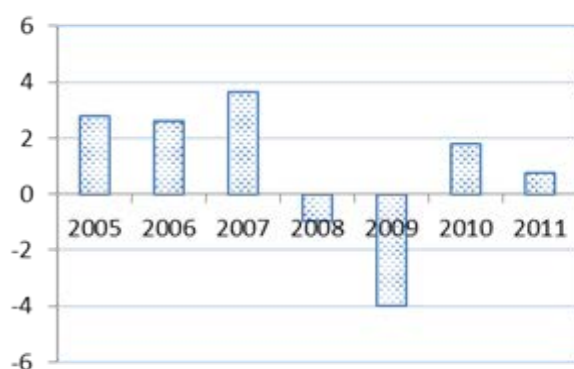
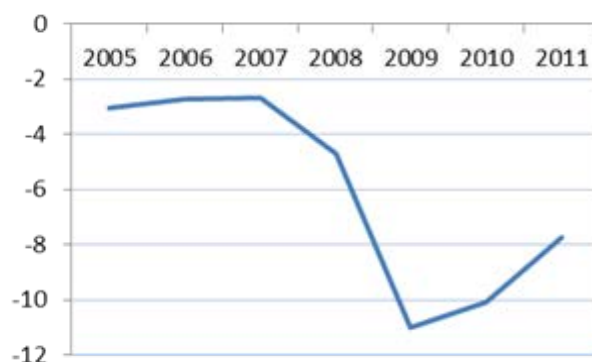
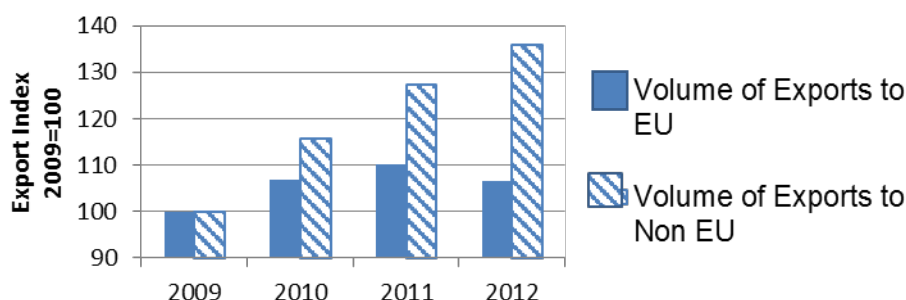


Figure 4: UK Government Budget Balance (as percentage of GDP)



Source: The World Bank

Figure 5: Volume of UK Exports to EU and non EU Countries



Source: Office of National Statistics, 2012

Table 2: Selected macroeconomic indicators for South Korea and UK

Country		United Kingdom					South Korea				
Year		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Total Unemployment (%)		5.3	5.3	7.7	7.8	7.8	3.2	3.2	3.6	3.7	3.4
Youth unemployment ¹ (%)		13.3	16.0	19.0	19.9	21.8	8.8	9.3	9.8	9.8	9.6
Real GDP (US\$ Billion)		2110	2090	2006	2043	2063	1212	1240	1244	1322	1371
Composition as percentage of GDP	Private Consumption	61.1	60.7	61.3	61.0	59.7	66.6	65.4	67.9	65.5	65.7
	Government Consumption	22.7	23.2	24.5	24.1	24.2	4.8	4.2	4.3	4.2	4.1
	Investment	18.8	17.8	15.0	16.2	16.0	27.1	27.0	24.6	22.5	22.2
	Exports	27.7	28.3	27.1	28.2	29.3	43.5	46.4	45.7	50.2	51.4
	Imports	30.3	30.0	27.9	29.5	29.2	42.0	43.0	42.5	42.4	43.4

¹ Youth Unemployment is the percentage of 15-24 year olds who are part of the labour force but are unemployed

Source: The World Bank, OECD

Extract 6: A generation left behind

Youth unemployment is rising perniciously across much of the developed world. Poor growth, widespread austerity programmes and the winding up of job-creating stimulus measures threaten further unemployment overall. The young jobless often get a particular bounce in recoveries: first out, they are often also first back in. However the lack of a sharp upturn means such partial recompense has not been forthcoming this time round.

Youth unemployment has direct costs in much the same way all unemployment does: increased benefit payments; lost income-tax revenues; wasted capacity. In Britain a report puts the cost of the country's 744,000 unemployed youngsters at £155m (\$247m) a week in benefits and lost productivity. Some indirect costs of unemployment, though, seem to be amplified when the jobless are young. One is emigration: ambitious young people facing bleak prospects at home often seek opportunities elsewhere more readily than older people with dependent families.

Youth unemployment leaves a "wage scar" that can persist into middle age. After a period of unemployment, the temptation to take any work can be strong. Wage scarring is one of the reasons to think this has lasting effects. Young people unemployed for a long time are usually channelled into "non-regular" jobs where pay is low and opportunities for training and career progression few. Employers seeking new recruits for quality jobs generally prefer fresh graduates over the unemployed, leaving a cohort of people with declining long-term job and wage prospects.

Adapted from the Economist, 2011

Extract 7: The great mismatch

A big part of the youth unemployment problem is that educators and employers operate in parallel universes. The best way to bring these two universes together is to revamp vocational education. Some far-sighted countries such as South Korea have reinvented vocational schools to reduce the country's shortage of machine operators and plumbers; counteracting the country's obsession with academic laurels.

Adapted from the Economist, 2011

Extract 8: Will growth give them a job?

The most obvious way to tackle unemployment is to reignite growth. That is easier said than done in a world plagued by debt, and is only a partial answer. The countries where the problem is worst (such as Spain and Egypt) suffered from high youth unemployment even when their economies were growing. Throughout the recession companies have continued to complain that they cannot find young people with the right skills. This underlines the importance of two other solutions: reforming labour markets and improving education.

Youth unemployment is often at its worst in countries with rigid labour markets characterised by cartelised industries, high taxes on hiring, strict rules about firing and high minimum wages. Closing the skills gap will also require a change of attitude from business. Some companies (e.g. IBM & McDonald's) are revamping their training programmes, but the fear that employees will be poached discourages them from investing in the young. However, some employers have begun to co-operate with colleges to design training courses. Technology is also reducing the cost of training: online courses can help apprentices combine on-the-job training with academic instruction.

Adapted from the Economist 2013

Questions

- (a) With reference to figures 3 and 4,
- (i) Describe the trend in the government budget balance as a percentage of GDP in the UK between 2007 and 2011. [2]
 - (ii) Explain how GDP growth rate could have affected the government budget balance. [3]
- (b) (i) Compare the trend of the volume of UK's exports to EU and non EU countries between 2009 and 2012. [2]
- (ii) Explain whether the trend observed in b(i) can be used to conclude that UK's export revenue has increased between 2009 and 2012. [2]
- (c) Using the data, explain the relative importance of private consumption and net exports on UK's economic recovery in 2011. [3]
- (d) In Extract 6, wage scarring is considered one of the reasons why youth unemployment has lasting effects.
Discuss the impact of youth unemployment on present and future economic growth. [8]
- (e) With reference to the data, assess whether "reinventing" vocational education is the key to reducing unemployment in the UK. [10]

CSQ 2: Charting a course for sustained growth
[Suggested Answer on Page 7-19T]

Table 1: Selected Indicators for China and Singapore

	2007	2008	2009	2010	2011	2012
China						
Growth in real GDP (%)	14.2	9.6	9.2	10.4	9.3	7.8
Export-to-GDP ratio	38.4	35.0	26.7	29.4	28.5	27.3
Singapore						
Growth in real GDP (%)	9.0	1.7	-0.8	14.8	5.2	1.3
Export-to-GDP ratio	214.7	230.3	191.9	199.3	200.2	195.1

Source: *World Bank*, accessed 21 August 2014

Extract 5: China's need to 'rebalance' its economy

China should do more to rebalance its economy from exports and investment to consumption. The World Bank has cut its forecast for China's economic growth next year to 7.5 percent from 9.2 percent after the global financial crisis deepened. More than half of the expansion will come from "government-influenced spending" with China urgently required to rebalance its growth towards domestic demand as it could no longer rely on its consumers overseas to lift it up. With China rebalancing towards domestic consumption, this spells good news for its trade partners with potential increase in their exports to China.

Source: *Bloomberg*, 25 November 2008

Extract 6: Challenges of the Singapore economy

Despite the global economy changing as the fear of a return to recession has diminished in most industrial economies, mixed indicators revealed that the expected recovery could falter as the United States Federal Reserve tapering its quantitative easing measures with its monetary policy shift.

Predictions revealed that a recovery in the United States and European economies would boost Singapore's exports, but signs of that filtering through have yet to fully materialize with exports to the European Union down 3.9 percent in June from a year ago. Exports to the United States fell 2.9 percent from a year ago, while shipments to China rose 5.3 percent. A tight labour market could also further weigh down on Singapore's electronics industry, a key driver of Singapore's exports, adding to further weakening of Singapore's comparative advantage in the electronics sector resulting in some of Singapore's exporters relocating.

The services sector may also decelerate in the coming quarters, which will pose a threat to economy given its relatively large contributions to GDP and employment with services making up 68 percent of Singapore's GDP and about 70 percent of total employment.

Source: *Asian Development Bank*, 2013

Extract 7: Skills shortages persist as Singapore economy expands

All-round Accountants, Legal Counsels, and Sales Administrators are just some of the many skills in demand as Singapore's expanding economy continues to create new jobs. Yet a paradox exists. At the same time as the number of long-term unemployed is increasing, so too are the number of vacancies, which suggests that the available labour does not always have the skills employers want.

Adapted *Singapore Business Review*, March 2014

Extract 8: A three-pronged approach to deepen incentives for restructuring

Singapore's next phase of economic restructuring must be driven by transformations in small and medium enterprises (SMEs), readiness for jobs, and social norms, said Deputy Prime Minister Tharman Shanmugaratnam.

Firstly, the Productivity and Innovation Credit (PIC), which gives firms tax deductions or cash grants when firms invest to boost their capabilities through automation, worker training and research and development, will be extended and broadened. Originally implemented in 2010, it will be extended for another three years until 2018.

Secondly, it is the Lifelong Learning Endowment Fund, which subsidizes continuing education and training for Singaporeans.

The third front is to bring about a broad shift in societal values. The minister cited two examples where social norms need to change: To have seniors keep working and for consumers to accept self-service as a norm.

If successful, the productivity improvement will account for two-thirds of growth, up from just one-fifth previously. However, it is worrying if Singapore misses its productivity targets as the reduced reliance on foreign labour could cause a labour crunch resulting in slow growth.

Source: *The Straits Times*, 25 March 2014

Extract 9: Minimum wage for inclusive growth?

NTUC Secretary-General, Mr Lim Swee Say, expressed no intention of adopting minimum wage as part of the solution to inclusive growth. He mentions that minimum wage will lead to rising business cost and with the keen global competition, Singapore cannot afford to implement minimum wage. Instead, the introduction of Workfare Income Supplement would circumvent these problems and allow displaced workers to 'buy time to move upward'.

Source: *National Trade Union Congress*, 12 January 2011

Questions

- (a) Using Table 1, compare the real GDP growth in Singapore and China between 2007 and 2012. [2]
- (b) (i) Explain how "government-influenced" spending (Extract 5) can impact the Chinese economy. [4]
(ii) With reference to Table 1, explain how far the data might show that China has made progress in rebalancing the economy away from exports. [4]
- (c) (i) Define a minimum wage. [2]
(ii) Explain how a minimum wage is part of the solution to inclusive growth. (Extract 9). [4]
- (d) Explain the types of unemployment that the Singapore economy is likely to face. [6]
- (e) Extract 6 mentions the various challenges faced by the Singapore economy. Discuss the likely effectiveness of the policy of economic restructuring outlined in Extract 8 to address these challenges. [8]

SECTION 3: Essays

SECTION 3A: Lower-Order Skills

1. (a) Explain the causes of unemployment. [10]
[Suggested Answer on Page 7-23T]
2. "Singapore's unemployment rate could surge to a 20-year high of 5 per cent next year. This would be the highest level of unemployment since 1986."
The Straits Times, 25 February 2009

(a) Explain the cost of a high unemployment rate to Singapore. [10]
[Suggested Answer on Page 7-24T]
3. (a) Using the concepts of scarcity and opportunity cost, explain why governments are often concerned with high levels of unemployment. [10]
[Suggested Answer on Page 7-25T]

SECTION 3B: Higher-Order Skills

1. Unemployment rate hits record high in some countries due to internal and external problems.

(a) Explain what causes the rate of unemployment to rise in an economy. [10]

(b) Discuss the alternative policies that a government could adopt to reduce the high rate of unemployment. [15]
[Suggested Answer on Page 7-26T]
2. (a) Explain why low unemployment is one of the macroeconomic objectives for Singapore. [10]

(b) Assess whether the policies adopted by the Singapore government to maintain low rate of unemployment remain relevant in view of the challenges faced by the economy. [15]
[Suggested Answer on Page 7-29T]
3. In the second quarter of 2016 Singapore's unemployment rate rose to 3.1%.

Discuss whether supply-side policies are the most effective way of achieving full employment in Singapore. [25]
[Suggested Answer on Page 7-34T]

SECTION 3C – Challenging Essays

1. Singapore's unemployment rate rose to 3.3% in March 2009.
 - (a) Explain whether demand-side or supply-side factors were more responsible for the rise in unemployment in Singapore. [10]
 - (b) Discuss the extent to which problems are likely to arise from the use of fiscal policy to achieve full employment in Singapore. [15]**[Suggested Answer on Page 7-35T]**
2. The problem of jobless youth (15-24 years of age) shows no sign of abating. The global youth unemployment rate was estimated at 13% in 2013, with many countries across the world reporting their youth unemployment rate to be more than twice their national unemployment rate.
 - (a) Explain why youth unemployment is of concern to governments. [10]
 - (b) Discuss whether the openness of an economy is a significant determinant in the choice of policies to deal with youth unemployment. [15]**[Suggested Answer on Page 7-39T]**
3. In Singapore Budget 2010, the government aims to raise labour productivity through promoting innovation, investing in people and increasing foreign workers levy.

Discuss the extent to which raising labour productivity will help Singapore achieve sustained economic growth and full employment. [25]

[Suggested Answer on Page 7-46T]

2017 Other JCs' Prelims – UNEMPLOYMENT (H2)

1	DHS	(a) Using the circular flow of income, explain how a fall in exports might impact unemployment in an economy. [10] (b) Discuss whether the size of multiplier is the main factor in determining the choice of macroeconomic policies to reduce unemployment in Singapore. [15]
2	NJC	'Over the past few years, social spending has increased significantly in the face of rising income inequality and an ageing population. Yet, no country has been able to offer free healthcare and social services without raising taxes for middle-income earners. Source: Adapted from straitstimes.com, 25 Oct 2015 (a) Explain the factors that limit the effectiveness of fiscal policy in reducing unemployment. [10] (b) In the light of rising income inequality and an ageing population, discuss whether fiscal policy is the best policy to achieve inclusive and sustained economic growth in Singapore. [15]

A Level Examination Questions – UNEMPLOYMENT (H2)

1	2007 H2	<p>'To be considered successful, an economy needs to achieve low unemployment, low inflation and stable economic growth.'</p> <p>(a) Explain this statement. [12]</p> <p>(b) Discuss whether fiscal policy is the most effective way for Singapore to sustain a successful economy. [13]</p>
2	2013 H2	<p>Governments have aims in relation to unemployment, economic growth and the balance of payments.</p> <p>(a) Explain the consequences of failing to achieve these aims. [10]</p> <p>(b) Discuss whether failure to achieve these macroeconomic aims is more likely to be caused by domestic or international factors. [15]</p>
3	2016 H2	<p>(a) Explain why macroeconomic policy decision-making is made more difficult by possible conflicts between government objectives. [10]</p> <p>(b) Assess the relative effectiveness of the alternative macroeconomic policies that the Singapore government could adopt to maintain a low rate of unemployment. [15]</p>
4	2017 H2	<p>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.</p> <p>Discuss the various causes of unemployment and the economic policies that would help to achieve full employment in today's globalised world. [25]</p>

Chapter 7: Unemployment Suggested Answers

SECTION 2 – Case Studies

Suggested answers to Question 1

[Focus on parts c, d and e]

(a)		With reference to figures 3 and 4	
	(i)	Describe the trend in the government budget balance as a percentage of GDP in the UK between 2007 and 2011.	[2]
		There is an overall worsening budget deficit [1], however from 2007 to 2009 while the deficit increased, there was a reduction in the deficit after 2009 [1]	
	(ii)	Explain how GDP growth rate could have affected the government budget balance?	[3]
		<p>From 2008 to 2009 when there was negative GDP growth, there was a larger budget deficit. However from 2005 to 2007 and 2010 to 2011 where UK experienced positive GDP growth, the government budget deficit was reduced. [1]</p> <ul style="list-style-type: none"> As the economy grows, household incomes and firms' profits are higher; there is higher tax revenue from personal income and corporate taxation, and indirect tax revenue. [1] The government expenditure on welfare payments for unemployment benefits could have fallen with positive economic growth. [1] <p>Students can use automatic stabilisers or discretionary fiscal policies to explain.</p>	
(b)	(i)	Compare the trend of UK's exports to EU and non EU countries between 2009 and 2012.	[2]
		Similarity: Both have an increasing trend [1]. Difference: However the UK's exports to non EU increased faster than the UK's exports to EU countries. [1]	
	(ii)	Explain whether the trend observed in bi) can be used to conclude that UK's export revenue has increased between 2009 and 2012.	[2]
		<p>Since the data is given in index form, it shows the volume of change compared to 2009 has increased. However, there is not enough data given to conclude that trade export revenue has increased. [1]</p> <p>Export revenue is the product of the price and volume, however, the data for the price index of exports is not available. [1]</p>	
(c)		Using the data, explain the relative importance of private consumption and net exports on UK's economic recovery in 2011.	[3]

		UK's economic recovery in 2011 is due more significantly to an increase in the net exports compared to private consumption. From table 2, although private consumption forms the highest component of GDP, it has fallen as a percentage of GDP while net exports improved from a deficit to a surplus in 2011 due to the increase in volume of exports to non EU countries (Fig 2). Hence, there is an increase in the relative importance of net exports while private consumption played a less significant contributor to UK's recovery. Ref to data [1]; explanation [2].	
(d)		<p>In Extract 6, wage scarring is considered one of the reasons why youth unemployment has lasting effects.</p> <p>Discuss the impact of youth unemployment on present and future economic growth.</p>	[8]
		<p><u>Effect of youth unemployment on present growth</u></p> <ul style="list-style-type: none"> • Fall in consumption due to falling incomes and less youths who are gainfully employed will cause AD to be negatively affected, hence growth in the short run will be slowed by youth unemployment. . • Impact on the government budget and ability to undertake fiscal policy. <ul style="list-style-type: none"> ◦ Direct costs incurred in terms of unemployment benefits. The longer youths are unemployed, the more government expenditure per individual required. In Britain, the cost of unemployed youths to the government and to the economy is estimated to be £155m a week in benefits and lost productivity. ◦ Fall in current incomes of the youths will lead to a loss of tax revenue due to fewer youths in unemployment. <p><u>Effect of youth unemployment on potential capacity which affects sustained future growth.</u></p> <ul style="list-style-type: none"> • Wasted capacity due to the loss of man hours → fall in the maximum amount of output that UK can generate, which limits future growth. • If youth unemployment persists and causes talented youths to migrate to other countries in search of employment (extract 6), this could result in a large brain drain and fall in the labour resource of Britain, affecting the long run aggregate supply and productive capacity of the economy adversely. <p><u>Effect of youth unemployment on future sources of growth</u></p> <ul style="list-style-type: none"> • Impact on consumption and investment in the future • Wage scarring could occur leading to a permanent and persistent loss of earning power as the training of skills, and career progression of individuals is disrupted largely by periods of youth unemployment. • Prolonged structural unemployment leads to atrophy of skills over time. Firms may choose to invest elsewhere with a more dynamic and relevant workforce. With a slower growth in investment, this will slow both potential growth and actual growth in the future. <p>The extent of the negative impact of youth unemployment depends largely on how the skills and technical know-how of the youths is affected, and how long such youths remain unemployed after graduation.</p>	
Knowledge, Understanding, Application and Analysis			

		L2	Balanced analysis on the consequence of youth unemployment on both present and future growth, incorporating various data as evidence to substantiate analysis. Analysis is contextualised to UK economy.	4-6	
		L1	Mere listing of the effects of the impact of youth unemployment. One-sided analysis on the present effect of youth unemployment. Or Balanced analysis attempted but argument is limited in elaboration or use of the AD/AS analysis. For analysis that consist of interpretation of explanations of unemployment instead of youth unemployment. [max 3]	1-3	
		E	Well-reasoned judgement	1-2	
(e)		With reference to the data, assess whether “reinventing” vocational education is the key to reducing unemployment in the UK			[10]
		<p>Introduction: Explain the main type of unemployment in the UK: Structural especially amongst the youths (periods of positive growth does not cause a reduction in youth unemployment from 2009 to 2011, in fact evidence of increasing youth unemployment despite growth of the economy in Table 2), and cyclical unemployment (sharp increase in unemployment in 2009 during the economic recession). Recognise that reducing total unemployment involves not only measures targeting youth unemployment, but also for workers above the age of 24.</p> <p>Assertion that “reinventing” vocational education as key to reduce unemployment especially among the youths.</p> <ul style="list-style-type: none"> • Reinventing vocational education is necessary to equip both youths and adults with the relevant skills and knowledge in accordance to the needs of the industry. As suggested in Extract 7, this means to encourage collaboration and partnerships between educators and employers in the design of training courses (extract 8) which facilitates better information sharing regarding the type of workers the employers require, more targeted training and enable the movement between vocational schools to the workplace more seamless. This could have the additional benefit of reducing frictional employment. • As in South Korea (Extract 7), improvements made in vocational training can enable the economy to better meet specific industry needs in areas that require specialised knowledge and skills such as machine operators and plumbers <p>Counter Argument that vocational education may not be sufficient to address all the root causes of unemployment in the UK, especially cyclical unemployment.</p> <p>Stimulating growth could be more important to reducing unemployment in the UK (Extract 8 suggests that reigniting growth is the key).</p>			

	<ul style="list-style-type: none"> • This could be done by undertaking expansionary demand management policies to stimulate domestic consumption which has been dampening UK growth, and also to incentivise firms to invest. Fiscal policies may not be viable due to the austerity drives to cut down public debt, and given that the budget balance as a percentage of GDP has been in a deficit from 2005 to 2011 (Fig 4). • Trade policies with focus on non EU destinations to take advantage of growth in emerging economies (Figure 5) which has been a significant contributor to UK's recovery. This could help UK develop new areas of comparative advantage, leading to creation of jobs and fall in unemployment. <p>Suggestion of other measure(s) to argue that reinventing vocational training is only one part of the solution to reduce unemployment.</p> <ul style="list-style-type: none"> • Retaining of talented young individuals by identifying them earlier to prevent the emigration and brain drain. • Reforming labour markets and reducing supply-side rigidities (Extract 8) • Government intervention in the allocation of university places to better manage investment in human capital for the long-term needs of the economy. This addresses the perception of academic qualifications being more important than having the right skills set to undertake jobs in the future. <p>Conclusion In light of possible measures assessed, reinventing vocational training is key in targeting the skills mismatch in a sustainable manner which also has benefit in building more synergy between employers and educators to better anticipate and meet the labour needs of the economy.</p> <table border="1"> <thead> <tr> <th colspan="3">Knowledge, Understanding, Application and Analysis</th></tr> </thead> <tbody> <tr> <td>L2</td><td> <ul style="list-style-type: none"> • For a comprehensive and justified explanation on the use of revamping vocational education and other policies in reducing unemployment in the UK. Referencing to the data and contextualising is done by incorporating data to substantiate analysis. </td><td>5-7</td></tr> <tr> <td>L1</td><td> <ul style="list-style-type: none"> • Answers with many inaccuracies, mere listing of measures with little or no explanation • One-sided argument regarding the use of vocational training in addressing the mismatch of skills. • Discuss both vocational training and measures to counter cyclical unemployment but argument is limited in elaboration or with inaccuracies, or inconsistent in the discussion. </td><td>1-4</td></tr> <tr> <td>E</td><td>Well-reasoned judgement on the importance of re-inventing vocational training, based criterion</td><td>1-3</td></tr> </tbody> </table>	Knowledge, Understanding, Application and Analysis			L2	<ul style="list-style-type: none"> • For a comprehensive and justified explanation on the use of revamping vocational education and other policies in reducing unemployment in the UK. Referencing to the data and contextualising is done by incorporating data to substantiate analysis. 	5-7	L1	<ul style="list-style-type: none"> • Answers with many inaccuracies, mere listing of measures with little or no explanation • One-sided argument regarding the use of vocational training in addressing the mismatch of skills. • Discuss both vocational training and measures to counter cyclical unemployment but argument is limited in elaboration or with inaccuracies, or inconsistent in the discussion. 	1-4	E	Well-reasoned judgement on the importance of re-inventing vocational training, based criterion	1-3	
Knowledge, Understanding, Application and Analysis														
L2	<ul style="list-style-type: none"> • For a comprehensive and justified explanation on the use of revamping vocational education and other policies in reducing unemployment in the UK. Referencing to the data and contextualising is done by incorporating data to substantiate analysis. 	5-7												
L1	<ul style="list-style-type: none"> • Answers with many inaccuracies, mere listing of measures with little or no explanation • One-sided argument regarding the use of vocational training in addressing the mismatch of skills. • Discuss both vocational training and measures to counter cyclical unemployment but argument is limited in elaboration or with inaccuracies, or inconsistent in the discussion. 	1-4												
E	Well-reasoned judgement on the importance of re-inventing vocational training, based criterion	1-3												

Suggested answers to Question 2:

(a) Using Table 1, compare the GDP growth in Singapore and China between 2007 and 2012. [2]

Both GDP growth for China and Singapore was positive with the exception of 2009 where it turned negative for Singapore. OR

The GDP growth for China is persistently higher than Singapore's with the exception of 2010.

(b) (i) Explain how 'government-influenced' spending (Extract 5) can impact the Chinese economy. [4]

Clarify term 'govt-influenced' spending
e.g Increase in C due to reduction in PIT

Explain impact:

Increase in C_d → increase in AD → increase in output and GPL. Illustrate with AD/AS diagram

Production of a larger quantity of goods and services and requires more workers → increase in employment. [Cite evidence]

Extract 5 mentions that "government-influenced" spending is required to increase domestic consumption (C_d) so as to reduce the dependence on external demand to drive economic growth. Hence government induced spending can negate part of the fall in AD due to a fall in external demand (export) and helps to slow down the fall in economic growth.

(ii) With reference to Table 1, explain how far the data might show that China has made progress in rebalancing the economy away from exports. [4]

'Rebalancing the economy' refers to attempts by the Chinese government to increase domestic consumption (C_d) so as to reduce the dependence on external demand to drive economic growth.

From Table 1, overall China's export-to-GDP ratio has fallen with the exception of 2010 where it increased. With the exception of the huge dip in China's GDP growth between 2007–2008 which is likely due to the global financial crisis and in 2012, GDP growth has remained relatively stable across the years. This implies that China's growth could be driven by domestic demand instead of exports.

However, there is insufficient data from the case material as to whether there is indeed an increase in domestic consumption as there could have been increases foreign investment.

(c) (i) Define a minimum wage. [2]

A minimum wage is the lowest legally permissible wage. For it to be effective, it must be set above the equilibrium wage rate.

(ii) Explain how a minimum wage is part of the solution to inclusive growth (Extract 9). [4]

Economic growth is measured by the increase in real GDP.

Meaning of inclusive growth:

Inclusive growth refers to growth that benefits the majority of the labour force and where an increase in income is experienced by all.

Link MW to inclusive growth

In order to ensure inclusive growth for all, the government may impose a minimum wage that is above the equilibrium wage for the low-skilled workers. This will ensure that all workers will experience an increase in income, hence being part of the solution to inclusive growth.

(d) Explain the types of unemployment that the Singapore economy is likely to face. [6]

The Singapore economy is likely to face both demand-deficient unemployment and structural unemployment. The unemployed refers to people in the working age population who are available for work and are actively looking for a job but cannot find a job.

Demand-deficient unemployment is due to a fall in the demand for labour caused by an economic recession, and wages being sticky downward. As mentioned in extract 6, with the US Federal Reserve tapering its quantitative easing measures, US economic recovery could possibly falter. With an increase in interest rates, consumption in US will fall and therefore Singapore's exports to US will fall as evident in the 2.9% fall from a year ago. Also, Singapore's exports to the EU has also fallen 3.9%. This will mean that net exports for Singapore would have fallen. Ceteris paribus, this will lead to a fall in AD. Given that labour is a derived demand, this will lead to a fall in demand for labour. Since wage, is sticky downwards, a surplus of labour ensues leading to Singapore facing demand-deficient unemployment.

At the same time, extract 6 suggests that Singapore suffers from structural unemployment. Structural unemployment is caused by the changing pattern of demand and supply in the economy. This occurs when there is a long term decline in demand for labour in particular industries, workers lose their jobs and are unable to get new jobs due to mismatch between their skills and the requirements of the new job opportunities.

Extract 7 mentions that Singapore's long-term unemployment is increasing with available labour not having the skills that employers want. This will mean that the increase in demand for skilled labour such as accountants, legal counsels and sales administrators is not met. So while job vacancies are available as mentioned in extract 7, electronics workers who lose their jobs are unable to fill existing jobs due to the lack of relevant skills. Hence labour is prevented from transiting between industries and Singapore faces structural unemployment.

(e) Extract 6 mentions the various challenges faced by the Singapore economy. Discuss the likely effectiveness of the policy of economic restructuring outlined in Extract 8 to address these challenges. [8]

Introduction: Clarify the challenges

Loss in competitiveness → slower economic growth, unemployment and greater income inequality.

Extract 8 suggests a three-pronged approach to economic restructuring in Singapore namely PIC, Lifelong Learning Endowment Fund and broad shifts in societal values.

Development: PIC → Incentive for investment → increase in quality and quantity of resources.

Training:

- Increases skills → increase mobility → reduces structural unemployment.
- Increase skills → Increase labour productivity → Increase output per worker → demand for workers → increases wages
- Increase skills → Increase labour productivity → Increase output per worker → Increase quality of labour → raise AS.

Broad shift in societal values:

Through a broad shift in societal values such as to have seniors keep working and to accept self-service as the norm, will dampen the effects of a shrinking labour force by an increase in labour force and through diverting labour to other expanding industries from the former low-value service industry.

These measures can help Singapore regain comparative advantage in certain industries → increase in productivity and therefore fall in opportunity cost of production. These measures will enable the AS to increase.

Given that the Singapore economy is near full employment, the increase in AS will lead to actualised growth causing real output to increase. As mentioned in extract 8, if successful, this policy will be effective in accounting for two-thirds of growth compared to one-fifth previously.

Evaluation:

However, the policy of economic restructuring does not solve the cyclical issues that the Singapore economy faces. The Singapore economy also faces falling AD due to the weaknesses in the recovery of the western economies. Singapore may wish to adopt demand management policies to address these issues.

Conclusion:

In conclusion, while economic restructuring takes a long time to take effect and is dependent on the receptivity of the workers undergoing training and on the firms' willingness to invest, the policy is the most appropriate as it targets aggregate supply.

Knowledge, Application, Understanding and Analysis		
L2	For an answer that provides a thorough discussion of the policies with close reference to the case material and contains rigorous analysis.	4-6
L1	For an answer that attempts to discuss the policies available and make some/close reference to case material but inadequate economic analysis.	1-3
E	For an evaluative judgement that reaches a conclusion based upon consideration of the analysis.	1-2

SECTION 3A – Lower-Order Skills

1 a) Explain the causes of unemployment. [10]

Suggested Answer

Unemployment refers to that part of the labour force actively seeking employment but are currently unemployed and without a job. Although the Singapore government aims to achieve full employment, unemployment still exists and can be attributed to various causes.

Cyclical unemployment arises when the aggregate demand (AD) is not sufficient to generate enough output to employ the entire labour force. From figure 1 below, AD intersects AS at levels lower than the full employment level of output (Y_d). Firms thus reduce output and fall from Y_1 to lower levels of Y . There is reduced demand for labour and firms retrench workers, thereby leading to greater unemployment.

Singapore depends highly on trade and thus, a global or regional recession like the 1997 Asian financial crisis and the 2008 financial crisis reduces AD from AD_0 to AD_1 , leading to a devastating impact on the economy as business outlook became poor and demand for Singapore exports fell. Cyclical unemployment is also known as demand deficient unemployment.

Structural unemployment arises when the economy undergoes economic restructuring where skills of some workers are not in demand or a change in location of jobs. As a result of the changing structure, there is a mismatch between worker's skill and job requirements. Such a structural change can arise from demand and supply sides. If there is a permanent fall in demand for a product of a particular industry, output will have to be reduced and unemployment will result. **Insert diagram**

In Singapore the shift from labour intensive to capital intensive or bioengineering industries in recent years due to factors such as emergence of cheap labour in China and India and the need to diversify the economy to a greater extent, has led to the unemployment of low skilled workers.

Frictional unemployment arises when a worker who has lost a current job is in the process of looking for another job or when students who have completed their studies are looking for jobs. It arises because it takes time for workers to be matched with suitable jobs. The unending flow of people into and out of the labour force and the process of job creation and job destruction create the need for people to search for jobs and for firms to find suitable employees. Hence, frictional unemployment arises.

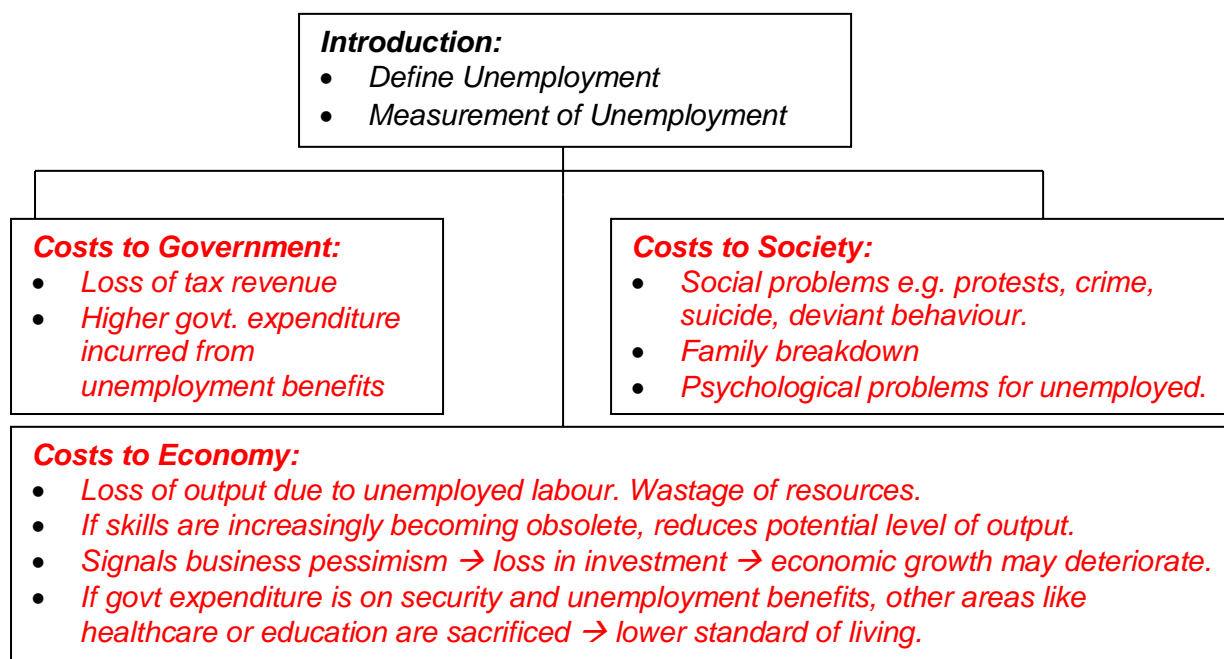
In conclusion, there are various causes to unemployment in Singapore. In particular, it can be concluded that structural unemployment is the greatest cause of unemployment in Singapore in recent years. While the economic downturn has given rise to cyclical unemployment, it is considered short-term and will go away when the economy recovers.

Knowledge, Application, Understanding and Analysis		
L3	Good knowledge and explanation of unemployment and its various types. Good use of examples. Accurate and well developed answer.	7-10
L2	Ability to point out different types of unemployment and explain how each type of unemployment arises. However, facts are accurate by undeveloped.	5-6
L1	Some knowledge of unemployment. Inadequate explanation and contain basic error.	1-4

2. “Singapore’s unemployment rate could surge to a 20-year high of 5 per cent next year. This would be the highest level of unemployment since 1986.”

The Straits Times, 25 February 2009

(a) Explain the cost of a high unemployment rate to Singapore. [8] [NYJC Promo Paper, 2009]



Knowledge, Application, Understanding and Analysis		
L3	Clear illustration of the costs of unemployment to the different sectors of the economy, with relevant economic analysis. Three reasons, with strong economic application.	8 – 10
L2	An explanation of two economic and one non-economic reason. However, answers are not well-explained.	5 – 7
L1	Mere listing of the costs of unemployment, lacking elaboration. Answers are mostly towards the impact on society, lacking economic analysis.	1 – 4

3. (a) Using the concepts of scarcity and opportunity cost, explain why governments are often concerned with high levels of unemployment. [10]
[NJC, 2015]

Suggested Answer

1. Concept of scarcity	Explain the concept - Scarcity refers to the situation where the limited resources available are unable to satisfy the unlimited human wants. Resources are means of production and they are finite in amount at any point in time. Hence, the quantity of output produced will also be limited. <i>Unlimited wants refer to the desire for ever higher levels of consumption. These desires increase over time. As soon as old wants are satisfied, new wants are created.</i> <i>The wants are satisfied through the consumption of goods and services.</i>
	Explain unemployment is situation where resources are not fully utilized leading to wastage of resources and/or that unemployment may cause economic to slow down - <ul style="list-style-type: none"> • With unemployment, the economy's actual output may be significantly less than its potential output. • In the event of prolonged unemployment it may cause a person to lose touch of the skills and knowledge he once possessed, causing a lowering of the economy's potential growth. • High unemployment has impact on non-material standard of living as well. Unemployment appears to be linked to a greater incidence of crime, violence on streets, drug abuse, alcoholism and vandalism, which in turn affects the investors' confidence in the economy. This may lead to fall in investment in the economy and affects economic growth.
	Insufficient goods & services are produced to satisfy wants. Hence unemployment worsens the problem of scarcity
2. Concept of opportunity cost	Explain the concept - Opportunity costs measure the cost of making a choice, in terms of the next best alternative foregone.
	With unemployment, more goods & services could have been produced.
	The government loses tax revenues due to the loss in income since the unemployed can no longer pay income tax. They are also more prudent in their spending, so there will be less collection of GST. The fall in tax revenue would mean that the government would have fewer funds available for infrastructural development which would hinder economic growth. Moreover, the government needs to spend on welfare payments sacrificing on other important projects like developing infrastructure or raising quality of education & healthcare.

Knowledge, Application, Understanding and Analysis	
L3 8–10	Ability to use both concepts in explaining the costs of unemployment well
L2 5–7	Ability to use the 2 concepts in explaining the costs of unemployment OR Only able to use 1 of the concepts in explaining the costs of unemployment well
L1 1 – 4	Major conceptual errors Brief attempts at explanation of the 2 concepts or costs of unemployment

SECTION 3B – Higher-Order Skills

1. **Unemployment rate hits record high in some countries due to internal and external problems.**
 - (a) **Explain what causes the rate of unemployment to rise in an economy.**
[10]
 - (b) **Discuss the alternative policies that a government could adopt to reduce the high rate of unemployment. [15] [PJC 2015]**

Suggested Answer for Part (a)

Unemployment refers to the situation in which people who are willing and able to work cannot find work.

Cause of a rise in rate of unemployment:

(1) Cyclical unemployment → Demand- deficient unemployment

(2) Structural unemployment

(Frictional unemployment is likely not a significant cause as this is a natural phenomenon and is generally not regarded as a serious problem. In addition, the preamble and question highlighted that there is a record high unemployment rate and rise in rate of unemployment which means that there are other more significant sources of unemployment)

(1) Cyclical unemployment: occurs when the economy is at the recessionary phase of the trade cycle. It is caused by a decrease in aggregate demand (from either internal or external problems).

Internal → Recession → C & I fall → AD fall → real output fall → demand for FOP fall → demand deficient unemployment

External → Global downturn → X fall → AD fall → real output fall → demand for FOP fall → demand deficient unemployment

Example: In Singapore, cyclical unemployment is observable when we experience a recession, especially from a global downturn. Since external demand is the largest factor that contributes to the determination of Singapore's AD. When X falls, demand for labour would fall too bringing about cyclical unemployment

(2) Structural unemployment: occurs when the economy undergoes structural changes due to changing consumer demand and technology. These changes result in certain industries and skills becoming obsolete and at the same time such changes create demand for other industries and skills.

External → Labour intensive sectors face more competition from rising economies such as China → lose comparative advantage → workers who are retrenched from these sunset industries do not have the relevant skills to find jobs in rising industries → structural unemployment

Example: Singapore focuses more on developing the knowledge-based sectors (such as pharmaceutical/life sciences). However, workers who currently have skills in labour-intensive production do not have the skills to be involved. Therefore, they become structurally unemployed as they are unable to gain jobs in these sunrise sectors.

Suggested Answer for Part (b)

Stand: Policies depends on the root cause of the unemployment

(1) Cyclical unemployment (Demand Deficient): Demand management policies

(2) Structural unemployment: Supply side policies

(1) Cyclical unemployment: Demand management policies

Internal or External Problems

Internal: Monetary Policy centered on i/r / Fiscal Policy

External: MP centered on E/R

Expansionary MP centered on i/r :

Fall in i/r → fall in cost of borrowing → rise in consumption of big-ticket items → higher C → AD rises

Fall in i/r → fall in return to savings → lower opportunity cost to consume → higher C → AD rises

Fall in i/r → fall in cost of borrowing → given the same expected returns to investment → more investment projects are profitable → investment rises → AD rises

Limitations:

- Liquidity trap
- Consumer and business confidence

Expansionary MP centered on E/R :

Weaken domestic currency → reduce the prices of exports in foreign currencies → if $PED_x > 1$, export revenue increases.

Weakening of domestic currency → prices of imports rise in terms of domestic currency → if $PED_m > 1$, import expenditure falls.

Rise in net export revenue → AD rise

Limitations:

- Imports dependent reduces ability to substantially weaken currency

Expansionary FP:

Reduce personal income tax rates → households' disposable income rise → increase in C since the level of consumption expenditure is directly related to the level of disposable income → AD rises

Reduce corporate income tax rate → increases firms' after-tax profits → increase in I → AD rises

Limitations:

- crowding out effect
- availability of funds

How demand management policies address cyclical unemployment:

An initial change in AD can have a greater final impact on equilibrium national income. Via the multiplier mechanism cause a multiple increase in output necessitating more workers to be employed, hence reducing cyclical unemployment.

(2) Structural unemployment: Supply side policies

Increase government spending (G) on training and/or reduce taxes (T) on firms which provide more training programmes for their workers.

training → improve employability and quality of our workforce → increasing productive capacity (shown by AS shifting right → workers can now be employed as the skills-vacancy mismatch is resolved → reduce severity of structural unemployment.

government establish training facilities/institutions for skills upgrading or acquire new skills. Training grants and subsidies (e.g. Skills Development Funds in Singapore) can also be provided to encourage skills retraining and upgrading. In Singapore, the government encourages retrenched and older workers to receive training in hospitality and healthcare sectors (such as house-keeping, patient services) so that they can be re-employed in these industries.

Encourages the use of new technology to boost the labour productivity of low-skilled, retrenched workers. E.g. re-design of cleaners' job to incorporate the use of new/high technology so that cleaners need to use more sophisticated machines in helping them to accomplish the work in lesser time with fewer workers.

Limitations:

- take a relatively long period of time
- SR: Workfare benefits
- may lead to budget deficit

Evaluation:

Which alternative policy to adopt depends on:

- root cause of unemployment (Demand deficient from which component of AD or structural unemployment)
- Size of government debt [USA]
- time lag (FP vs MP if cause of Unemployment is fall in C and I)
- short-term measure for structural unemployment (Jobs credit scheme)

2. (a) Explain why low unemployment is one of the macroeconomic objectives for Singapore. [10]
- (b) Assess whether the policies adopted by the Singapore government to maintain low rate of unemployment remain relevant in view of the challenges faced by the economy. [15] [ACJC, 2016]

Suggested Answer for Part (a)

Approach

- Establish that government pursues sustainable economic growth, price stability, low unemployment and favourable balance of payment position as macroeconomic objectives so as to ensure continual improvement of standard of living in the country.
- Explain the positive effects of achieving low unemployment in the country, with references to how its achievement will help to keep growth sentiments positive.

Introduction: Explaining the meaning of low unemployment

- State what are the 4 macroeconomic objectives
- Explain what is meant by low unemployment:
 - Unemployment rate refers to part of the labour force who are not working but actively looking for jobs. Low unemployment suggests a condition of full employment or very near to it.
 - Low unemployment means labour resources are utilised and not left idle. Low unemployment does not mean zero unemployment but close to the natural rate of unemployment, which is the base level of unemployment that will always exist in the economy. Singapore is having low unemployment as the unemployment rate is at 1.9%.
- Identify that achieving low unemployment have positive effects on economic growth, standard of living and government budget.

Key point 1: Low unemployment means maximisation of standard of living

- Low unemployment ensures that scarce resources are fully utilized → the economy operates closer to the boundary of the PPC → AD is high enough relative to productive capacity.
- The achievement of full employment means that at current available resources and productive capacity, the country is producing the most output possible and income per capita would be at highest possible.
- With large part of labour force gainfully employed, households enjoy purchasing power for consumption.
- Singapore has been able to enjoy low unemployment and positive economic growth in recent years → 2% growth in real GDP and 1.9 % unemployment in 2015
- Low unemployment prevents social unrest and depression which may reduce non-material SOL. High Unemployment rate in some European countries have increased from 34% in 2006-07 to 46% in 2011-12 and the number of strikes, street protest and demonstration has increased significantly. Depression and excessive worry due to inability in finding employment can increase stress levels in the society, leading to a lower non-material SOL.

Key point 2: Low unemployment boosts domestic growth sentiments

- Low unemployment tends to take place alongside positive GDP growth. This boosts economic confidence for consumption and investment – positive effects on AD and equilibrium national income.
- On the other hand, if a country faces high unemployment households will not be optimistic to spend and firms to invest. This will have spiralling downward effects on AD, national income and inflation rate.

Key point 3: Low unemployment reduces strain on government budget

- Low unemployment means greater tax revenue from income tax and consumption tax as well as decreased spending on social assistance. Although Singapore does not have unemployment benefits, households could seek financial assistance. Needy Singaporeans received about S\$116 million of financial help between Apr 1, 2014 and Mar 31, 2015 from ComCare, the Government's social assistance scheme. Low unemployment thus reduces the need for Singapore government to divert their budget spending on social assistance and allows for funds to be channelled for other productive uses e.g. improving infrastructure and retraining of workers to move up the value chain. This would allow potential economic growth in the long term – rightward shift of LRAS.
- With sustained low unemployment, a government does not much need to dip into the reserves to adopt a budget deficit, allowing the government to accumulate its reserves and use it when the economy faces problems

Key point 4: Low unemployment prevents loss of labour skills & productive capacity

- Individuals who are unemployed for prolonged periods of time could lose their skills. This is referred to as the hysteresis effect where cyclical unemployment may become structural unemployment. This loss in productivity could adversely affect the productive capacity by decreasing the LRAS in the long-run as quality of workers deteriorates.
- Workers who have been structurally unemployed for a long-time may become discouraged and leave the labour force too. Workers may leave the country in search for better jobs and results in brain drain. This results in a fall in productive capacity as the labour force is shrunk.

Conclusion

- Low unemployment will bring about benefits in term of other macroeconomic aims as well as improvement in SOL. Singapore is a small country with only labour as its only viable factor of productions hence it is important for Singapore achieve low unemployment.
- High unemployment is an economic problem that will lower current standard of living due to lack of job and earnings and if this is prolonged will also weaken the prospects for future economic growth.

Knowledge, Application, Understanding and Analysis		Marks
L3	<ul style="list-style-type: none">• A well-developed conceptual analysis of the benefits of low unemployment – considering its effects on both standard of living and growth performance with references to AD/AS concepts.• Well-applied to the context of Singapore (labour-constrained country, hence the importance of maximizing labour force potential.	8 – 10
L2	<ul style="list-style-type: none">• Conceptually correct but undeveloped explanation• Limited application to Singapore• Answer may contain minor inaccuracies	5 – 7
L1	<ul style="list-style-type: none">• Smattering of points, without use of economic concepts.• Significant conceptual errors.	1 – 4

Suggested Answer for Part (b)

Approach:

- Identify the challenges faced by Singapore and how they may lead to an increase in unemployment rate.
- Pointing out the current policies adopted by the Singapore government to maintain low unemployment and assess whether they remain relevant using criteria such as effectiveness, sustainability and feasibility of the policies.

Unpacking the context: What are the challenges faced by the Singapore economy?

- Sluggish growth environment → Weak global economic growth as shown by the slowdown in the China, US and EU economy → Singapore as an open economy is hugely affected by the global economy → slowdown in AD due to fall in net export earnings and foreign direct investment → may result in some firms retrenching workers → threats of cyclical unemployment
- Economic restructuring → Singapore faces an ageing population and increase in competition due to globalization, especially on lower skill jobs hence there is need to focus on productivity growth to drive the economy forward → emphasis on automation and innovation to drive productivity and economic growth by moving up the value-added chain → rising labour costs as Singapore government reduces the ease of employing foreign labour + threats of structural unemployment for labour who get displaced by automatic and technology.

Unpacking the context: What are the policies adopted by the Singapore government to maintain low rate of unemployment?

- Fiscal policy → The Singapore government adopts a counter-cyclical budget policy for the purpose of demand management and the need for fiscal prudence. During times of recession where unemployment rate is high, the Singapore government would adopt a budget deficit to stimulate the economy.
- Exchange rate policy → modest and gradual appreciation at most times to achieve price stability so as to maintain export competitiveness and attract FDI.
- Strong focus on supply side policies which promote efficiency and international competitiveness of domestic producers, such as pro-competition policy, continuing education and skills upgrading as part of labour culture, various support programmes to develop the capacity of SMEs.

Determining evaluation criteria: How to assess the relevance of the policies adopted by the Singapore government to maintain low rate of unemployment?

- To assess the relevance of the current policies, it depends on whether the policies can withstand the shocks from the fluctuations of the external economy and whether the policies will improve workers mobility/employability throughout ongoing structural adjustments which various industries go through in the course of shaping up to the demands of international competition.

Argument 1: Assessing the relevance of fiscal policy in maintaining low cyclical unemployment in Singapore

- Although the multiplier effect in Singapore is small due to high leakages from imports and savings, expansionary fiscal policy is used whenever the economy was threatened by recession and rising unemployment.
- During the recession in 2009, Singapore government implemented the resilience package totalling \$20.5 billion to help stimulate the economy. This was funded by tapping on past reserves build from past budget surpluses. The resilience package includes expanding public sector hiring and bringing forward public infrastructure projects, creating more jobs for the economy and reducing cyclical unemployment. The

Jobs Credit scheme was introduced then, a short term policy, for the government to subsidise labour costs and prevent retrenchments.

- Fiscal policy remains relevant in maintaining low unemployment in view of the weak global demand. Although the government did not adopt a deficit budget this year (2016) although the economy has been weakening, this must have been considered against the rate of the slowdown. Overall, the use of fiscal policy will still be needed if the economy turns worse.

Argument 2: Assessing the relevance of exchange rate policy in maintaining low unemployment in Singapore

- Singapore has adopted a modest and gradual appreciation of the Sing Dollar to keep imported inflation low. This is important as Singapore is small country with no natural resources and hence it needs to import raw material for its re-exports as well as for domestic production and consumption.
- Stability of costs and wages is needed to keep unit labour costs in Singapore stable and competitive against other countries.
- Amidst the weak global economy, the Monetary Authority of Singapore has eased its monetary policy by adopting a 'zero appreciation' stance; not allowing the Sing Dollar to appreciate. Although this may result in higher cost of imported goods, this keeps Singapore's export more price competitive in the global market, especially in this weak global environment. This then allows external demand to remain high and prevent cyclical unemployment.
- The exchange rate policy is relevant to Singapore as it is a small and open economy, with total trade amounting to almost thrice its GDP.
- It should be noted that the adjustment of the policy stance based on Singapore's economic conditions suggests that the policy is still relevant. This policy provides MAS with the flexibility to adjust its monetary stance according to the challenges the economy is facing. If global demand picks up in the future, the MAS will revert back to its modest and gradual appreciation stance of the Sing Dollar.
- However, exchange rate policy alone is not enough to keep unemployment rate low in Singapore as it does not tackle structural unemployment where there is a mismatch of skills and jobs. Nonetheless, it remains largely relevant due to the import-dependence of the economy.

Argument 3: Assessing the relevance of supply side policy in maintaining low unemployment in Singapore

- Supply side policy can improve the match between jobs and skills, since Singapore is moving towards innovation-based growth to drive the economy forward.
- The Singapore government has tried to improve productivity growth by encouraging firms to rely on technology and automation instead of foreign manpower. Initiatives include the Productivity and Innovation Credits (PIC) scheme help firms, especially small and medium enterprises (SMEs), with their cash-flow needs for expenditure on innovation and productivity initiatives. Less workers would then be needed in these labour intensive industries such as food and beverages and these workers may not have the appropriate skills to work in other sectors which are booming such as the biomedical and financial industries.
- One key labour initiative is Skills Future, which every Singaporean aged 25 and above would receive \$500 credit to enrol in government approved courses. Education policies are also constantly reviewed to meet the changing nature of jobs available in the economy. For example, Singapore University of Technology and Design was set up to equip undergraduates the skills to innovate so as to increase productivity level. New innovation could also help to boost Singapore's international competitive as new innovative products could be exported out and boost Singapore's AD, creating more jobs in the economy, especially in view of the sluggish growth environment.

- Overall, supply side policy is largely relevant (or the most relevant) in maintaining low unemployment in Singapore as it can tackle problems brought by both economic restructuring and weak growth environment. Structural unemployment also appears to be more significant than cyclical unemployment as Singapore is still experiencing economic growth.
- However, supply side policies are considered as an ongoing approach which supports the economy in the long term. These policies are not meant to be counter-cyclical like the budget and exchange rate policies.

Conclusion

- Singapore has adopted a policy mix to maintain the low unemployment in the economy. This is an economically sound approach in view of the challenges of economic restructuring and sluggish growth environment which could bring about both cyclical and structural unemployment. The policies have remained relevant, and it appears that the government has given much more emphasis on supply side measures to boost labour ongoing employability and technology.
- Singapore could refine its policies to enhance their effectiveness in maintaining low unemployment in the economy. Retraining of workers could be more targeted at industries affected most by the economic restructuring. More efforts could also be aimed at changing the mind set of workers by providing more information of the benefits of retraining as well as preparing the workforce to deal with future challenges brought by globalization and increase in competition.

Knowledge, Application, Understanding, Analysis		
Level	Descriptors	Marks
L3	<ul style="list-style-type: none"> • Developed and balanced assessment of the policies adopted by the Singapore government in maintaining low unemployment • Well-connected to context of sluggish growth environment and economic restructuring as current challenges • Demonstrate a sound grasp of Singapore's policy mix 	8 – 10
L2	<ul style="list-style-type: none"> • Balanced but underdeveloped assessment of the policies adopted by the Singapore government in maintaining low unemployment • Lacking in the grasp of Singapore's current economic challenges <p>Or</p> <ul style="list-style-type: none"> • One-sided developed assessment of the policies adopted by the Singapore government in maintaining low unemployment • Ideas generally offer sound economic • References to some policy examples 	5 – 7
L1	<ul style="list-style-type: none"> • Of little relevance to question • With major conceptual inaccuracies in reasoning 	1 – 4
E3	<p>Well-reasoned judgement on the relevance of the policies adopted by the Singapore government in maintaining low unemployment. Judgement is based on sound economic analysis.</p> <ul style="list-style-type: none"> • Able to judge that while the mix of policy instruments remains the same, what matters is the flexibility of the policy orientations with changing economic conditions 	4 – 5
E2	Mainly unexplained that is not supported by economic analysis.	2 – 3
E1	<p>Merely stating the stand with no or little justification.</p> <ul style="list-style-type: none"> • Tends to be a random evaluation of Singapore's policy instruments 	1

3. In the second quarter of 2016 Singapore's unemployment rate rose to 3.1%.

Discuss whether supply-side policies are the most effective way of achieving full employment in Singapore. [25]

Examiner's Report:

This was a very popular question to which there were some mixed answers.

The best, not surprising, gave a considered and well-balanced answer that not only showed good understanding of the underlying economic analysis but gave excellent evaluation based on good knowledge of the Singapore economy. A wide range of evaluative comments was presented. These explained concerns about the use of supply side policies to solve problems caused by a lack of aggregate demand, distinguished between short run and long run outcomes and discussed the merits of alternative policies. Clear diagrams were frequently in evidence.

The key disappointment is too many candidates used this question as an excuse to write all they knew about macroeconomics and, in particular, about demand management policies. There was scant reference to the supply side and in particular to the analysis that underlies supply side policies. That said these candidates were to describe or at least show some knowledge of supply side policies. Candidates should be encouraged to use AD/AS curves to explain their answers to macroeconomic questions of this type.

SECTION 3C – Challenging Essays

1. Singapore's unemployment rate rose to 3.3% in March 2009.

(a) Explain whether demand-side or supply-side factors were more responsible for the rise in unemployment in Singapore. [10]

(b) Discuss the extent to which problems are likely to arise from the use of fiscal policy to achieve full employment in Singapore. [15] [SRJC, 2009]

Suggested Answer for Part (a)

Introduction

Explain the meaning of unemployment and why a high unemployment rate may be a problem.

Body

There are many causes of unemployment but these can be grouped according to demand or supply-side factors.

1. Demand-side factors

- a. When unemployment is due to demand-side factors, this means that there is insufficient demand or fewer job vacancies than the number unemployed.
- b. Unemployment can be due to fall in Aggregate Demand (AD). This type of unemployment is usually called cyclical unemployment. Evident during the downswing of the business cycle.
- c. Explain the meaning of AD and its components.
- d. Explain how a fall in AD will lead to rise in unemployment.
- e. Application: Cyclical unemployment is evident in Singapore in recent times especially in 2008 and beginning of 2009. Unemployment is largely due to fall in external demand i.e. fall in export revenue. This fall is a result of the world financial crisis and economic recession. Singapore is largely dependent on exports for its growth. Hence, this fall in exports contributed significantly to the rise in unemployment in recent times.

2. Supply-side factors

- a. Supply-side factors either refer to fall in AS or structural rigidities and labour immobility that prevent economy from reaching full-employment.
- b. Fall in AS can be due to fall in labour productivity and rise in wages. Ceteris paribus, this leads to a rise in unit labour costs \rightarrow \uparrow prices of goods \rightarrow \downarrow quantity demanded \rightarrow \downarrow revenue and profits \rightarrow \downarrow production by firms \rightarrow firms retrench workers \rightarrow \uparrow unemployment.
- c. Structural rigidities and immobility of labour is another reason for unemployment. Immobility can be due to factors such as lack of relevant skills, education, age.
- d. For example, as a result of globalisation, countries such as China and other low-cost producers of low-end manufactured goods enter the world market and threaten the exports of developed countries. As a result of the closure of industries that compete directly with those imports, there is structural unemployment. Those who are unemployed are not able to find employment in sunrise industries due to their lack of relevant skills. Thus, it can be said that this unemployment is due to supply-side factor, i.e. labour immobility.
- e. Application: This is also evident in Singapore in recent years. This unemployment is usually among the older and low-educated workers. As Singapore moves towards a knowledge-based economy, there is increasing demand for high-skilled workers. Those who are not able to acquire new skills will lose their jobs permanently.

Conclusion

Comment on which factor is more responsible: I think that currently, demand factors are more responsible for the rise in unemployment in Singapore recently. As mentioned earlier, the world economic recession has resulted in loss of jobs for Singapore due to fall in demand for manufactured exports. Structural unemployment however, has always existed as Singapore continues to restructure its economy and increasing its export competitiveness.

Knowledge, Application, Understanding and Analysis		
L3	Thorough explanation with good use of examples. Evaluated which is likely to be the more responsible factor.	8 - 10
L2	Some explanation of demand or supply-side factors. However, explanation is not rigorous. Lack of relevant examples.	5 – 7
L1	Limited understanding of question requirement, insufficient explanation	1 – 4

Suggested Answer for Part (b)

Introduction

Unemployment is not desirable from society's point of view. It is one of the main concerns of the government. There are many policies that governments can use to achieve full-employment, namely fiscal, monetary and supply-side policies. Usually a package of policies is needed because certain policies are targeted at different types of unemployment. Problems would usually arise from the use of these policies and these must be considered in determining the choice of appropriate policies.

Body

- Define fiscal policy: deliberate attempt by the government to influence the level of economic activity, in this case to reduce unemployment, by changing the level of government expenditure and taxation.
- Explain how an expansionary fiscal policy can reduce unemployment.
 - $\uparrow G$ on final gds/svcs such as building infrastructure, spending on education and healthcare $\rightarrow \uparrow AD$.
 - Government can also reduce direct taxes to lower AD. By \uparrow personal income tax $\rightarrow \uparrow Y_d \rightarrow \uparrow C \rightarrow \uparrow AD$. Also, \downarrow corporate income tax $\rightarrow \uparrow$ post-tax profits more funds for investment $\rightarrow \uparrow I \rightarrow \uparrow AD$.
- The $\uparrow AD$ shortage of goods and services higher prices and profits. Thus, more incentive for firms to increase production $\rightarrow \uparrow$ national output, NY and employment, thus reducing cyclical unemployment.
- Explain and evaluate the problems that may arise from the use of expansionary fiscal policy to reduce unemployment.

a. **Small multiplier** \rightarrow government needs to pump in more money to solve the problem \rightarrow budget deficit balloons.

Through the multiplier effect, the initial rise in government expenditure will result in a larger change in NY . In fact, the total change in $NY = k \times$ initial change in G .

In Singapore, expansionary fiscal policy may not be very effective in solving unemployment because of the small multiplier effect.

Spore's K is small due to high MPW arising from high MPS and MPM .

The high MPS arises from compulsory savings through CPF contribution where 20% of gross income is saved. In addition, households save another proportion for precautionary and other purposes. Overall, Singapore's savings as a % of GDP is 50%.

The high MPM is due to Singapore's limited resources. Hence, we import virtually all final goods/services and raw materials. Every \$1 spent, 51cents go into imports.

Therefore, with a small multiplier, the govt has to spend even more or reduce tax further in order to achieve the desired outcome → larger budget deficit → makes policy very costly for future generation which bears the burden of the debt. Also persistent budget deficit is not sustainable.

However, this burden may not be great as the prudent Singapore government can draw on its past accumulated budget surpluses to finance its expenditure.

b. Crowding-out effect

- It occurs when the $\uparrow G$ is financed by borrowing from private capital markets. The $\uparrow DD$ loanable funds $\uparrow I/R \rightarrow \uparrow COB \rightarrow \downarrow I$, thus crowds out private investment.
- If the crowding-out effect is large, this means that there will be a large fall in private investments.
- Explain further how a fall in private investment can hinder future economic growth.
- The crowding-out effect can be expected to be small because the amount of government borrowing to finance its expenditure is small. Again due to its ability to finance spending from its past savings.

c. Problem of rising inflation

- $\uparrow G$ and \downarrow direct taxes $\rightarrow \uparrow AD \rightarrow \uparrow GPL$, as the economy reaches full-employment.
- Inflation can occur for as long as AS cannot increase fast enough to meet the rise in AD.
- This can occur because of structural rigidities that impede increase in AS.
- The problem of inflation is one of the important trade-offs of expansionary fiscal policy. When inflation increases, this can adversely affect the economy through its effects on savings, investment and export price competitiveness.
- This problem however, can be mitigated by the use of appropriate government expenditures to stimulate AS.
- Expansionary FP may also affect AS of an economy. Thus, the country is not only able to solve the problem of unemployment, it is also able to avoid inflation and at the same time, enjoy a rise in its potential output.
- Give examples of such policies are:
 - The $\uparrow AS$ above $\uparrow \downarrow GPL$, \uparrow output, NY and employment. Hence, there is no conflict with macro goal of inflation when growth and employment are achieved.

d. Time lag

The use of fiscal policy involves many time lags. The first of which is called the recognition lag where government needs to ascertain the problem. After which is the decision-making lag and implementation lag. The time lag depends very much on the efficiency of the government. In many situations, this whole process is hindered by bureaucracy.

The problem with this is that if the time lags are very long, instead of solving the problem, the policies worsen them because of changes in economic conditions.

Conclusion

State stand and justify.

Knowledge, Application, Understanding and Analysis		
L3	Thorough analysis of fiscal policy and the problems faced by government due to small multiplier, crowding-out effect and conflicts with other goals that may arise is thorough and consistently done.	8 - 10
L2	Explanation of how fiscal policy is used to reduce unemployment is adequate. Also some explanation of the limitations of fiscal policy in terms of small multiplier, crowding-out effect and conflict with low inflation.	5 – 7
L1	Some explanation of how fiscal policy works and the limitations of such policy.	1 – 4
E3	Students consider the extent of the problem under different circumstances and formulate a reasonably effective conclusion.	4 – 5
E2	Judgement not explained adequately or supported with some economic reasoning.	2-3
E1	A sentence or view that was merely stated without any substantiation.	1

2. The problem of jobless youth (15-24 years of age) shows no sign of abating. The global youth unemployment rate was estimated at 13% in 2013, with many countries across the world reporting their youth unemployment rate to be more than twice their national unemployment rate.

(a) Explain why youth unemployment is of concern to governments. [10]

(b) Discuss whether the openness of an economy is a significant determinant in the choice of policies to deal with youth unemployment. [15]

Question requirements:

- a) Explain what youth unemployment is and the harmful effects that may arise from it which is of concern to governments. Thoughtful answers should exhibit the knowledge that youth unemployment poses a bigger problem than general unemployment.
- b) Acknowledge that demand expansion is not the only cause of youth unemployment; there are other causes, e.g. market rigidities, misalignment between education and workforce, mismatch between supply and demand. As such, openness of an economy is not a significant determinant in policy choices. Other determinants are in fact more significant.

Suggested Answer

(a)

Unemployment is undesirable at any age, but evidence shows that people who struggle to find work during their early years in the labour market will be at a serious disadvantage for the rest of their careers. Problems of youth unemployment affect more than the youth; it has a major impact on society as well as the economy. And although typically higher in developing countries, youth unemployment has become a problem for many countries around the world, including developed ones.

Youth unemployment is of concern to governments because of the many long-term, negative consequences for the individual and for their country:

- **Wastage or even loss of resources:** The youth are the young and productive in a country's labour force. To be unemployed means a significant portion of the country's productive capacity untapped. Some unemployed youth resort to finding employment in unrelated or unfulfilling tracks – resources are not allocated efficiently and thus welfare is not maximised. For some countries, high youth unemployment causes youth to leave the country in search of employment; this further shrinks the workforce. High youth unemployment has led to social unrest (e.g. Greece) and political revolutions.
- **Substantial economic costs:** As the effects of youth unemployment can persist for years (e.g. those who begin their careers without work are more likely to have lower wages and suffer joblessness again later in life) the economic loss can be substantial. This includes higher welfare payments as well as opportunity costs from missing out on training and experience accumulation that typically occurs with young workers.
- **Decreased earnings and widening income disparity:** There will be decreased earnings over their entire lifetime for those who are unemployed in youth. Because youth are not able to build up skills or experience during their first years in the workforce, unemployed youth see a decrease in lifetime earnings when compared to those who had steady work or those who were unemployed as an adult. The lower salary can persist for 20 years after the unemployed period before the individual begins earning

competitively to their peers. While not earning money during unemployment, the youth could be contributing to a pattern of poverty for their generation. Widespread youth unemployment leads to a generation that is excluded socially and at a great risk for poverty. It also widens the gap between the rich and poor even further.

- **Wage scarring**: The deterioration of labour market prospects that results directly from an initial spell of unemployment is termed a 'scar'; it can come in the form of either higher unemployment or a lower subsequent wage or a combination of both.
 - After a period of unemployment, the temptation to take just any work can be strong – young people unemployed for a long time were channelled into “non-regular” jobs where pay was low and opportunities for training and career progression few. Employers seeking new recruits for quality jobs generally prefer fresh graduates (of school or university) over the unemployed, leaving a cohort of people with declining long-term job prospects and reductions in long-term wages: they become “youth left behind” (words used in an OECD report) and the cycle continues.
 - After long-term unemployment, youth are in danger of losing skills, connections to their industry, and desire to work long into the future. After a period of unemployment during a recession, the individual will find it difficult to find work once the economy improves because they have a large gap in their work history. Instead, employers will be more likely to hire those in the next generation who are just out of school.
- **Impact on family and SOL**: Increasingly, more unemployed youth are moving back in with their parents. This has been seen as both an effect and a cause of high youth unemployment. Youth in many countries now live with their parents into their late-twenties. In families, it is common that when one person becomes unemployed, other members of the family begin looking for or securing employment. This is called the added-worker effect. This can sometimes take the form of employment in the informal sector (the part of the economy which is not taxed, monitored by any form of government or included in the measurement of GDP) when necessary. Being unemployed for a long period of time (in youth) has also been correlated to decreased happiness, job satisfaction and other mental health issues (they feel that they are a failure and are of no importance to their communities).

Knowledge, Application, Understanding and Analysis		
L3	• Developed explanation of specific problems arising from youth unemployment, with some links to other macroeconomic goals	9-10
	• Developed explanation of problems arising from youth unemployment with sound economic reasoning but not linked to other macroeconomic goals	Max 8
L2	• Developed explanation of the problems arising from unemployment in general, but not specific to youth unemployment <u>OR</u> • Undeveloped explanation of specific problems arising from youth unemployment	5-7
L1	• Listing or mere description of points, with some conceptual inaccuracies	3-4
	• Many conceptual errors • Irrelevant answers	1-2

(b)

NOTE to students: *The overly-detailed suggested answers are not expected in your Prelims answers but will prepare you in the area of youth unemployment for the eventual A-level exams. For the Prelims exam, good answers are those which can acknowledge the need for demand- and supply-side considerations in policy choices, i.e. openness of an economy is not a significant determinant in policy choices.*

Introduction: The main thrusts in dealing with youth unemployment are job creation through demand expansion and improving the employability of the country's youth through sound education and training policies. While most economies are open, the degree of openness varies and this has implication on the choice of policies for AD expansion.

Thesis argument: The openness of an economy can be a determinant in the choice of policies to deal with youth unemployment. This is because the extent of a country's openness can affect its choice of policies with respect to expansion of aggregate demand and the extent of the significance depends on the relative importance between domestic and external demand. Large, open economies have greater flexibility in tapping on domestic demand for demand expansion as opposed to small, open economies.

Underlying this premise is the widely-held view that youth unemployment is best corrected by boosting economic growth. There is some evidence that changes in economic performance have had a larger effect on youth unemployment than the overall unemployment rate, e.g. some countries reported that their youth unemployment rate in the few years after the 2008 recession has jumped to more than double their national average. The rationale is that when there is a general hiring freeze, the youth unemployment rate grows as more youth move from schools into the workforce.

- Based on the above premise, boosting economic growth is thus considered to be one quick way of reducing the rate of youth unemployment. For a small and open economy, the smallness of its small domestic demand means that it has to depend on external demand for economic growth. In this case, its choice of policies to reduce youth unemployment would be somehow determined (or limited) by the openness of its economy.
- For example, during times of global economic slowdown, the small and open economy would be one of the first to be hit by sluggish external demand and a fall in foreign direct investment. Consequently, employment prospects in the country would deteriorate, and the government, in its attempt to reduce unemployment rate, would try to employ demand-management policies to boost domestic demand. However, the choice of policies would be affected by the extent of the openness of the economy.
- This is because a small and open economy has a small AD which would limit the effectiveness of expansionary fiscal and monetary policies. As the economy is also reliant on imports due to its lack of resources, the country's small multiplier would further limit its choice of demand-management policies.

Counter arguments: However, the openness of an economy is not a significant determinant in the choice of policies to deal with youth unemployment. There are many causes behind the youth unemployment rate and sluggish economic performance is but only one. Therefore, correct identification of other causes of youth unemployment will help countries identify the factors which influence their choice of policies. In fact, because improving employability of youth usually requires education and training to be better aligned with the changing needs of industries and to remove barriers of taking up employment among the jobless, the approach to tackle youth unemployment is fundamentally similar for all countries irrespective of their degree of openness.

The following are other factors (or other more significant factors) which will determine/influence the choice of policies to deal with youth unemployment:

- *Inflexible/rigid labour markets* (e.g. high taxes on labour, high minimum wages, strict laws and regulations on firing people): Although labour markets are generally left to operate under forces of demand and supply, the fact is that rigidities exist which affect the efficient working of market forces. Relevant policies are those which would be able to work through or help to reduce the inflexibility of labour markets. Examples of where the inflexibility lies:
 - Older employees have more job experience and job security. This means that the newest employees (usually the youngest) are more likely to be let go than an older employee who has been there for a long time. Similarly, workers with temporary contracts do not have as many rights as older workers who have permanent contracts.
 - Youth also have smaller social networks and less experience searching for work, making it a more difficult process where they are likely to find less success than older employees. Mobility is another factor in the youth unemployment rate. When the attachment to home is strong and when youth rely on parents for financial support, youth are often less mobile and less able to move locations to find a job than older workers who can move their entire family. The youth being supported financially by their parents are also able to wait longer before accepting a job, meaning that they remain unemployed for a longer period of time.
 - Example: One might think that the effect of 'scarring' might be blunted by the overall ageing of the population by increasing demand for labour. But Japan's youth joblessness, which surged after its financial crisis in the early 1990s, has stayed high despite a fast fall in the overall workforce. A large number of *hikikomori* (reclusive adolescents or adults who withdraw from social life) live with their parents, rarely leaving home and withdrawn from the workforce.
- *Mismatch between the supply of youth employees and the demand for them:*
 - The most obvious reason for the mismatch is poor basic education. In many advanced economies (whether growing or shrinking), the jobless rate for people with less than a secondary-school education is twice as high as for those with university degrees.
 - There is also a growing mismatch between skills of youth and the vacancies that employers want to fill. A lesson in point would be Germany, which places a lot of emphasis on high-quality vocational courses, apprenticeships and links with industry, and which also has a relatively low level of youth unemployment.
 - The number of graduates is growing much faster than the number of job opportunities relevant to their level of qualifications. Thus there is a strong mismatch between the supply of and the demand for graduates, contributing to growing youth unemployment.
 - Some economists argue that there is no oversupply since graduate salaries are generally stable or rising. But others suggest that there may be too many of the 'wrong type' of graduates, hence the mismatch between supply of graduates and demand from employers. The World Bank makes mention of a 'frictional' labour market where there are 'relatively high rates of tertiary graduate unemployment along with relatively high vacancy rates, or it takes a long time for employers to fill up positions. This is often an indication of skills shortages among graduate students.
 - UNESCO said that 'the number of unemployed graduates is partly caused by economic imbalances. The financial crisis and economic downturns in recent years are certainly the reasons for the reduction in the number of jobs' (but they also acknowledge that supply-side factors also contributed to high numbers of unemployed graduates; this 'over-supply' is an issue but only in some fields)

- Lack of alignment between education and workforce:
 - A close relationship between education and work can effectively help to reduce youth unemployment. A case in point is Germany – its long tradition of high-quality vocational education and apprenticeships have helped the country reduce youth unemployment in recent years despite only modest economic growth. Countries with high youth unemployment are short of such links e.g. few high-school leavers in France have any real experience of work; universities in north Africa focus on preparing students to fill civil-service jobs despite companies' complaints about the shortage of technical skills.
 - Training gaps may explain why over the past five years youth unemployment in flexible economies like America and Britain has risen more than in previous recessions and stayed high. Britain, which has one of the world's most flexible labour markets, more than twice as many young Britons (11.5% of the labour force) are unemployed as young Germans (3.9%). Incidentally, Britain also has a long-standing prejudice against practical education - in 2009 only about 8% of English employers trained apprentices compared with up to four times that number in the best continental European countries.

- Education expectations by employers: Youth are expected to have more education to compete for jobs than was true for previous generations, a phenomenon referred to as academic inflation. Youth are expected to stay in formal schooling for longer periods of time.
 - Because employers use credentials to screen applicants, more youth are forced to remain in education to meet the requirements of employers. This means a delayed entry into the workforce. The increasing amount of time that youth spend getting an education causes an equivalent rise in the average age when full-time employment begins.
 - From another angle, increased education expectations may also be blamed for rising youth unemployment. This is because education may be preparing youth for jobs that perhaps no longer exist when these youths finally graduate. Thus, along with increased education expectations comes a decrease in job availability.

- Nature of employment contracts: Young people are more likely to have temporary forms of work such as internships, seasonal jobs, contract work, and graduate research assistantships. In fact, the rise in the phenomenon of internships and other temporary work for youth has a significant influence on youth unemployment rates (and thus should determine the choice of policies).
 - Because their jobs are temporary contracts, youth are often the first to be laid off when a company downsizes. If they are laid off, youth are typically not eligible for redundancy payments because they only worked with the company for a short period of time. Once this work ends, many find themselves unemployed and disadvantaged in the job search.
 - Young people with take temporary internships and research assistant positions as a way to build their experience. Facing unemployment, they will also turn to unpaid work. The legitimacy of internships has begun to be questioned. The intent of an internship is to provide valuable work experience, typically to youth in or recently out of college. However, many interns have complained that they are simply performing basic grunt-work, rather than learning important knowledge and skills, which they can transfer when they eventually apply for permanent jobs.
 - In many of the developed countries, it is estimated that 1/3 of under-24s who are working are disproportionately engaged in informal or temporary employment. In developing countries, about 1/5 are unpaid labourers or work in the informal sector. Although this is better than not working at all, it means nearly half of the world's youth are contributing to the labour market less effectively than they could be.

- *Creative destruction and disruptive innovation*: New technology is forcing firms to rethink their operations from the ground up. Companies are constantly redesigning work, e.g. separating routine tasks (which can be automated or contracted out) from skilled jobs. They are also constantly redesigning themselves by 'upsizing', 'downsizing' and 'contracting out'. As businesses go through a fast and aggressive period of creative destruction and/or disruptive innovation, the life expectancy of companies is declining. Retaining labour becomes more and more challenging, needless to say about the ability of firms to hire.
- *Attitude of the youth*: Some of these youths choose not to work. For example, some groups of Asian women may choose not to work for cultural reasons.

Conclusion/synthesis:

- The openness of an economy is a determinant but not a significant one in the context of youth unemployment because the real obstacles of the problem lie on the supply-side of the economy.
- Policies to deal with youth unemployment must be able to identify the causes of the problem at hand. As the issue of youth unemployment cannot be separated from larger questions about labour market and the task of promoting economic growth, the government cannot work alone. Whether or not chronic youth unemployment is fixable, there is enough evidence to suggest that it can be reduced through concerted efforts of government, business, education and young people themselves.
- In short, openness of an economy is not a significant determinant of the choice of policies in addressing youth unemployment because sluggish economy is not the most important cause of this jobless phenomenon. Even if it is, the issue of 'openness' will only affect countries which are small and open, not the large and open ones. To learn from countries which have reported some success in reducing youth unemployment, governments around the world should adopt long-term strategies to better align educational systems with labour market requirements, and also put in more efforts to promote entrepreneurship.

Knowledge, Application, Understanding and Analysis		
L3	<ul style="list-style-type: none"> • Balanced and developed discussion <ul style="list-style-type: none"> ○ Understands that youth unemployment is not identical to general unemployment, and thus policy choices are not similar either ○ 'Openness' may affect the choice of policies but only for demand management ○ Shows clear understanding that the more significant approach for employability applies to all countries, regardless of the extent of openness ○ Covers both demand- and supply-side considerations in policy choices 	8-10
L2	<ul style="list-style-type: none"> • Developed but one-sided answer <ul style="list-style-type: none"> ○ Considers only the 'openness' factor, i.e. significant or not significant, in relation to policy choice for demand expansion ○ May be theoretical and not applied to the context of youth unemployment (i.e. talks about general unemployment) <u>OR</u> • Balanced but undeveloped discussion <ul style="list-style-type: none"> ○ Acknowledges and argues that openness is not a significant determinant in the choice of policies to deal with youth unemployment ○ Brings in other determinants which governments must consider when deciding on relevant policies to address youth unemployment 	5-7

L1	• Some conceptual errors	3-4
	• Many conceptual errors	1-2
	• Irrelevant answers	
E3	• Whether or not 'openness' is a significant determinant is really not a question at all. Regardless of how open an economy is, the significant factors in determining the choice of policies are largely domestic/internal, e.g. extent of rigidity of labour, the closeness of alignment between education system and workforce requirements, etc.	4-5
E2	• Judgement not explained adequately or supported with some economic reasoning.	2-3
E1	• A sentence or view that was merely stated without any substantiation.	1

Question 3

In Singapore Budget 2010, the government aims to raise labour productivity through promoting innovation, investing in people and increasing foreign workers levy.

Discuss the extent to which raising labour productivity will help Singapore achieve sustained economic growth and full employment. [25] [PJC, 2012]

Schematic Map

**Define labour productivity, sustained economic growth and full employment
Explain how increasing labour productivity leads to sustained economic growth and full employment via the AD/AS framework**

↓
Effectiveness is affected by ST macroeconomic fluctuations and limitations of SS measures

↓
Need for other ST measures to influence AD and minimise limitations

Introduction - define labour productivity, sustained economic growth and full employment.	Sustained economic growth is defined as the long term growth of real output without inflation. It occurs when actual growth is accompanied with potential growth. Full employment occurs when there is no demand deficient unemployment and there is only a low rate of supply side unemployment.
– State and explain briefly how Singapore government aims to promote higher labour productivity	Singapore government aims to raise labour productivity through promoting innovation, investing in people and increasing foreign workers levy. Innovation enables firms to find more efficient method of production. Singapore government also invested in human capital to equip them with relevant skills. Foreign worker levy has been raised so as to force the firms to reduce its reliance on cheap foreign workers and to innovate. These measures help to raise labour productivity.
State that raising labour productivity helps to increase AS and AD Explain how raising labour productivity raises AD and AS	Raising labour productivity, the level of aggregate supply (AS) and aggregate demand (AD) will rise in the long run. Raising labour productivity enables more output to be produced with the same amount of labour resources hence increasing the country's productive capacity. This causes Singapore's aggregate supply curve to shift rightwards. At the same time, higher labour productivity in the long run helps to attract more foreign investment to Singapore as firms are able to enjoy a higher expected rate of returns for their investment. This enables the aggregate demand (AD) curve to shift rightwards as well. With a simultaneous shift of both AD and AS curve, higher potential output and employment is achieved.
State that short term fluctuations of AD may affect economic growth and employment	However, in the short run, raising labour productivity may be limited in achieving sustained economic growth and full employment given the changes in AD in the short run due to external instability. E.g. Falling world NY due to the global economic crisis may cause a decline in trade and in Singapore's X, reducing AD and NY in Singapore, stifling economic growth and employment in the short run. Hence short term measures such as exchange rate and fiscal

	policies are needed to enable Singapore to achieve these two macroeconomic aims.
State that raising labour productivity may not be effective due to its limitations	Raising productivity can achieve sustained economic growth and full employment also depends on the effectiveness of the measures to raise labour productivity and its unintended consequences such as time lag, costly and uncertainty.
Conclusion	In conclusion, raising labour productivity alone is not sufficient. Has to be complemented with dd policies as well to manage short term macroeconomic fluctuations. Singapore government should also take into consideration the limitations of supply side policies as well.

Knowledge, Application, Understanding and Analysis	
L3 (18 – 20)	<ul style="list-style-type: none"> • Answer shows excellent knowledge of how sustained economic growth and full employment can be achieved by increasing labour productivity in Singapore. • Candidates are able to justify that raising labour productivity may not be effective in helping Singapore to achieve these aims due to limitations. • Candidates are able to justify the importance of ST macro policies to complement policies to raise labour productivity in the context of Singapore. • Good use of examples.
L3 (15 – 17)	<ul style="list-style-type: none"> • Answer shows good knowledge of how sustained economic growth and full employment can be achieved by increasing labour productivity in Singapore • Candidate attempt to justify that raising labour productivity may not be effective in helping Singapore to achieve these aims due to limitations. • Candidates attempt to justify the importance of short term macroeconomic policies to complement policies to raise labour productivity in the context of Singapore. • Some examples are highlighted.
L2 (12 – 14)	<ul style="list-style-type: none"> • Answer shows some knowledge of how sustained economic growth and full employment can be achieved by increasing labour productivity in Singapore. • Candidate did not thoroughly consider if raising labour productivity is effective in helping Singapore to achieve these aims. • Briefly explained the use of other policies.
L2 (9 – 11)	<ul style="list-style-type: none"> • Answer shows some knowledge of how sustained economic growth and full employment can be achieved by increasing labour productivity in Singapore. • Underdeveloped explanation in some areas. • Explanation has some reference to AD-AS model and Singapore economy.
L1 (5 – 8)	<ul style="list-style-type: none"> • Briefly explain how a rise in labour productivity affects economic growth and employment. • Several <u>errors and inconsistencies</u> occur in the explanation. • Little or no reference to the Singapore economy.
L1 (1 – 4)	<ul style="list-style-type: none"> • Smattering of a few valid points and briefly mentioned how a rise in labour productivity affects an economy.
E3 (4 – 5)	A sound judgment of extent of effectiveness based on economic analysis
E2 (2 – 3)	Attempt at synthesis using clear criteria
E1 (1)	Mainly unexplained judgment / No judgement of extent No attempt at synthesis