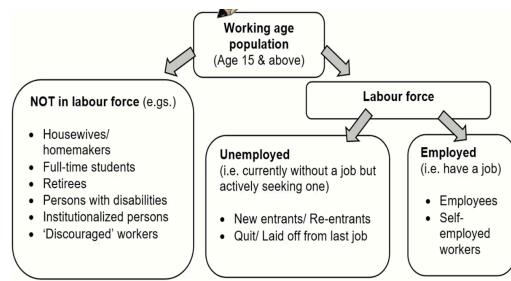


Unemployment

Definitions:

- The unemployed refers to people who are part of the labour force, but currently without a job and actively looking for one.



- The unemployment rate is a measure of the extent of unemployment in an economy:

$$UnE\ rate = \frac{unemployed}{labour\ force} \times 100\%.$$
- The labour force participation rate represents the proportion of population aged 15 years and above that is in the labour force:

$$LFPR = \frac{labour\ force}{working\ age\ population} \times 100\%.$$
- Seasonal unemployment is unemployment due to recurring calendar effects.
- Cyclical unemployment is associated with fluctuations in the business cycle.
- Frictional unemployment arises because of imperfect information present in the labour market.
- Structural unemployment occurs because of a mismatch of skills between the unemployed and the skills required for existing job opportunities.

UnE may be **understated**:

- Individuals who want to work but have given up searching for a job
'Discouraged workers' → exit the labour force → not captured in UnE statistics
- Some workers hold part time jobs although they would like to be employed full time
Underemployed → waste ctry's resources because skills of these workers could be put to better use

UnE may be **overstated**:

- Individuals taking on jobs in the underground economy are not accounted
Counted as unemployed even though they work

N.B. Decrease in UnE could mean that the number of 'discouraged workers' has risen. May not be a good thing.

Full employment:

- No cyclical UnE
- Frictional and structural UnE remains

Types of UnE:

★	Seasonal	Cyclical ¹	Frictional ²	Structural ³
Description	Example (SG): Unemployment typically <u>higher when graduates enter job market</u> in the middle of the year, and falls when graduates find work later in the year	<p>Rises when recession, falls when economic growth</p> <p>Fall in AD</p> <p>Fall in SRAS</p> <p>N.B. Only cyclical UnE can be shown with AD-AS diagram</p>	<p>Imperfect information: Employers are <u>not fully informed</u> about the type of labour available, and workers are <u>not fully informed</u> about what jobs are available → <u>search time</u> required to match qualified job seekers with available job openings → frictional UnE</p> <p>Prevent economy from becoming stagnant: Allow firms/ individuals to find the <u>right employment matches</u> → enable labour FOP to find <u>more productive</u> employment</p> <p>Sign of plentiful jobs/ economic recovery: Availability of jobs → stimulate <u>mobility between jobs</u> → increase frictional UnE</p> <p>Usually short term and not cause for concern</p>	<p>Mismatch of skills: Pace <u>of industrialisation</u> faster than the <u>accumulation of human capital</u> → 'skills gap' where <u>DD for new skills outpace SS of workers with those skills</u> → lack <u>relevant skills</u> to take on new jobs → structural UnE</p> <p>Usually longer term and cause for concern esp if it leads to permanent loss of jobs for affected workers</p>

¹ also known as DD-deficient UnE

² also known as search UnE

³ could be due to industries suffering structural decline or industries changing pdtn mthds

Measures	Mitigate with <u>seasonally adjusted UnE statistics</u>	<p>Expansionary DD mgmt policy Weaken e/r, EMP, EFP: (e.g. Resilience Package 2009 Financial Crisis) → increase AD and NY Diversify x/p mkts: (e.g. SG deepen trade ties with non-traditional economies like Russia) → mitigate fall in x/p DD and loss in jobs</p> <p>Exchange rate appreciation</p> <p>Measures to reduce COP (e.g. wage subsidies, rental relief)</p>	<p>Reduce/ restricting UnE Ben → increase <u>opp cost</u> of being UnE + less <u>funds for individual to finance longer job search</u> → shorten time individuals take for job search → reduce frictional UnE</p> <p>Online job portals (e.g. e2i, WSG, MyCareersFuture) → <u>improve information flow by provide information</u> for both job seekers and employers → <u>decreases search time</u> to match suitable labour with jobs.</p> <p>Workface Income Supplement (WIS)- rewards older less skilled workers for holding down a regular job through pay outs → <u>incentivise workers to remain employed instead of switching jobs</u> → reduce duration workers spend job searching</p>	Training/ upgrading skills (SSP) (e.g. WSS/ SkillsFuture/ PCP ⁴ / JGI) → <u>equip workers with relevant skills</u> to take up new jobs
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Evaluation/ Trends:

- Globalisation/ digital transformation/ economic restructuring
 - → expose SG to greater fluctuations in eco activity → adverse effects on external DD → rise of **cyclical UnE on more frequent basis**
 - → **job polarisation** where middle skills workers lose jobs, while low skilled and high skilled workers manage to keep jobs not easily replaced by technology → structural UnE and inequity
 - → workers change lose their jobs more frequently → SG may have to **implement more social security** to encourage people to be less averse to trying out different jobs across industries instead of choosing to remain UnE for too long

⁴PCP is targeted at mid-career PMETs, providing opportunities for them to undergo skills conversion and move into new occupation/ growth sectors (e.g. financial services, ICT, logistics, healthcare, etc), complemented with salary support where the government pays a portion of the salary for employers to encourage them to hire PMETs.

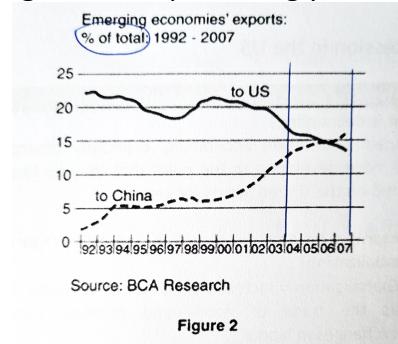
Consequences of unemployment:

1. Lower SOL
Loss/ reduction of income → fall in consumption
→ less g/s can be bought and enjoyed → lower SOL
→ fall in AD → fall in real o/p and NY → even lesser g/s can be bought and enjoyed → lower SOL
2. Persistent UnE
Job markets are rapidly changing → UnE for extended duration → skills dwindle and become obsolete → less employable → difficulty re-joining job mkt → persistent UnE⁵
3. Fiscal cost to government
High UnE → govt pay more UnE benefit → drain govt funds + opp cost as funds cld hv been put to better use like improving public infrastructure + reduction in tax revenue as unemployed do not earn income and do not contribute income tax, they also cut spending and contribute less indirect taxes like GST → negatively affect budget position and future growth
4. Loss of o/p
Goods that cld have otherwise been produced are not being produced
5. Widening income gap
Displaced workers unable to take on new jobs → suffer falling income
Workers able to take up new jobs → cld enjoy higher income
→ redistribution of income → widening income gap
6. Social cost
Social problems correlated with high UnE (e.g. domestic violence, crime)
Prolonged UnE → poverty → poor health + reduced life expectancy + affect the employment opportunities of children born into poverty as they typically have lower educational attainment

⁵ especially concerning for young workers as it wld **deny opp to develop skills and gain experience**

Glossary of Attempted CSQs

- When describing trends, either use vague words like “it” or **follow the phrasing of headings** to avoid penalising yourself.



Identify two changes in the exports of emerging economies between 20013 and 2007 (2m).

There was an increasing **proportion** of the emerging economies export to China (1m) and declining **proportion** to the US (1m).

- NY is affected by: ① **Size of multiplier** ② **Size of increase in AD** ③ **Level of employment of resource** (affect whether impact will be on real or money NY)
- Explain the possible **short term and long-term consequences** for **living standards** of a significant increase in real capital spending such as that experienced by emerging economies in extract 1 (6m).

Structure:

- ST (economy operating below/ at Y_f)
- LT (productive capacity)

Explain means **1 POV**. Hence, sufficient to focus on just material SOL (no need to talk about non-materials SOL).

Economic Analysis: PPC*/ AD-AS

N.B. PPC must always look at the opportunity cost

- Discuss the **policy options** available to deal with the **types of UnE** in Guangdong province (8m).

Must make reference to extracts for CSQ: Root cause- Cyclical UnE

Possible policies: EMP, ERP, EFP, policies to increase SRAS

Since extract mention falling ext DD, rising cop, appreciating yuan, advisable to use ERP and pair with EFP. Avoid EMP as will repeat explanation used in ERP.

Structure:

- How policy work + limitation (x2)
- Evaluation

Bleak economic outlook → C, I, NX may not increase significantly → policy mix to have greater impact on AD

EFP require funding from government → lack of government funds will lead to crowding out effects if government borrow to spend → decrease policy effectiveness

- Extract 1 suggests that there has been a **decoupling of the US economy and the world's emerging economies**. Discuss the **validity** of this argument (10m).

No need to be worried. This is actually just a “comprehension question” where evidence can be picked out from the extract and explained on.

Glossary of Attempted EQs

For macro problems, questions typically revolve around the **causes and policies to address it**.

(1)(a) **Explain why** macroeconomic policy decision making is made more difficult by **policy conflicts between government objectives** (**10m**).

(b) **Assess the relative effectiveness** of the alternative **economic policies** that the **Singapore government** could adopt to maintain a **low rate of unemployment** (**15m**).

SG context: don't talk about MP

Tip: If no time, write 2 strong points, 1 weaker.

Structure:

- Explain how EFP/ e/r policy/ SSP reduces unemployment
 - note: when you explain that MAS does not go to extreme of deprecating currency but instead adopts a neutral stance, state the reason: SG's heavy reliance on M as a depreciation might lead to imported inflation
- Limitations of EFP/ e/r policy/ SSP (1 each)

Be strategic: don't spam limitation, think of EV instead

Evaluation:

- Nature of economy
- Current vs future causes of UnE
- Whether policies can effectively mitigate all sources of UnE

Each policy listed may not be able to mitigate all types of unemployment. For e.g., DD mgmt policies tackle cyclical UnE, but is unable to mitigate structural and frictional UnE. SSP on the other hand is effective in mitigating structural UnE but is unable to reduce cyclical and frictional UnE. In addition, it is difficult to differentiate the sources of UnE. Therefore, we would **need a mix of policies to tackle the different types of UnE which have different root causes**.

As economies become more interconnected due to globalisation, we will likely see more frequent fluctuations in business cycles and instances of cyclical UnE in Singapore. Hence, this will remain an important issue to tackle and EFP and a gradually appreciating stance will definitely be most effective to mitigate this.

Currently, cyclical UnE is more prevalent in SG due to the recession that we are facing (i.e. covid-19), so DD mgmt policies may be more effective. H/w, in the future, the causes of UnE may differ due to globalisation/ advances in tech → increased use of capital/ tech → increased skills obsolescence since workers lack relevant skills for existing job opportunities → increase in structural UnE → **SSP more effective in LR**

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

Discuss the various **causes of UnE** and the **economic policies** that would help to achieve **full employment** in **today's globalized world** (**25m**).