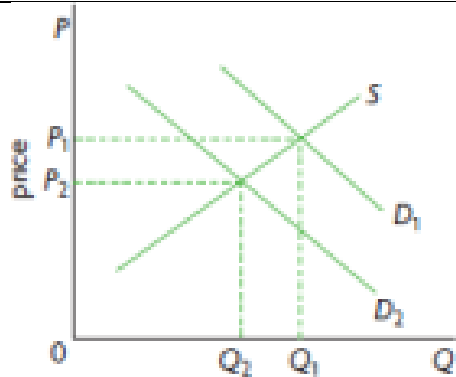
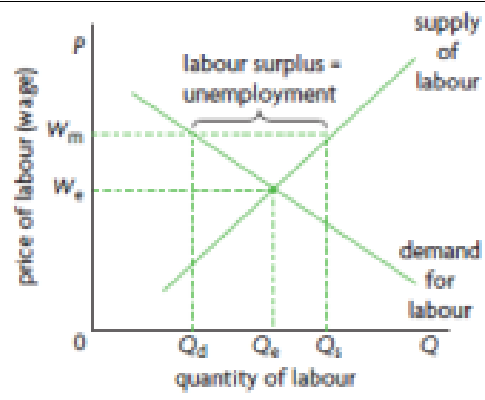


## Unemployment essays

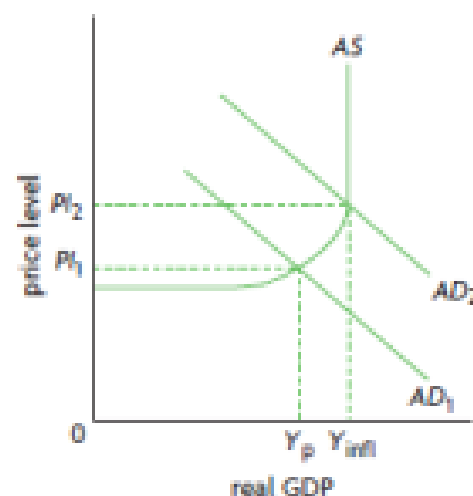
### Distinguish between structural and demand-deficient unemployment

	Structural	Demand-deficient
Causes	<p>Occurs when there is a change in the structure of the economy and a change in demand for a particular type of labour, or technological advances, or changes in consumer taste.</p> <p>For example, a structural change to the economy to move towards the secondary and tertiary sector by developing economies would make farmers structurally unemployed, or a technological advancement in the manufacturing industry that makes manual labour redundant</p>	<p>Caused by a decrease in AD or when the economy is in recession. Firms will cut back on their production, causing SRAS to shift to the left. The quantity of labour demanded will reduce, and the equilibrium wage level will decrease however due to wage “stickiness” downwards (pressure from trade unions and labour contracts, and general unwillingness to take a lower pay). This causes an excess of the supply of labour which is the DD-deficient unemployment.</p>
Effect	Unemployment increases in a certain industry for the long term	Unemployment across the economy increases in the short term as it is fixed when the economy picks up
Diagram	 <p>a) Fall in demand for a product produced in a declining industry, or produced in a local industry that relocates, causes a fall in <math>Q</math> produced; employers fire workers with inappropriate skills or local workers no longer needed due to relocation</p>	 <p>(c) Minimum wage legislation and labour union activities lead to higher than equilibrium wages and lower quantity of labour demanded</p>
Solution	<p>Supply-side policies (market and interventionist)</p> <ul style="list-style-type: none"> <li>- Retraining</li> <li>- Subsidies to help relocate some of the unemployed to high employment regions</li> <li>- Grants to firms that offer training</li> </ul>	Expansionary demand side policies (monetary and fiscal)

### Explain why structural unemployment might persist despite high economic growth

- Definition of structural unemployment: unemployment caused by a permanent fall in the demand for a certain type of labour due to market reforms in an economy or technological advancements. (e.g. technological advancements that make factory workers redundant)
- Definition of economic growth: an increase in real GDP or an increase in potential output caused by an increase in AD or an increase in the LRAS respectively.
- Economic growth is usually associated with the creation of employment opportunities
- However, unemployment may remain or increase as a result of labour immobility or
- Structural change in economy due to economic growth or
- Economic growth based on technological advancements can bring greater unemployment

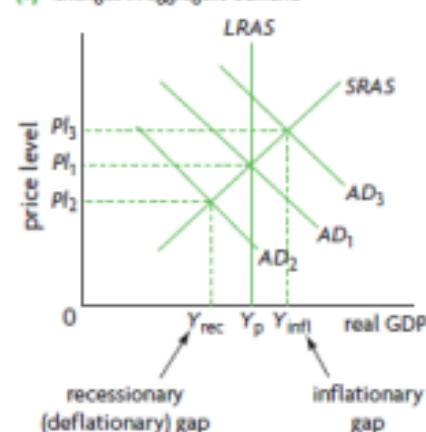
(b) The Keynesian model



### “Macroeconomic equilibrium does not necessarily occur at full employment” Explain this statement using the concepts of inflationary and deflationary gaps.

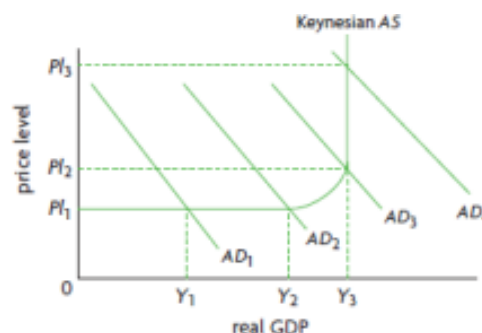
- Definition of macro-economic equilibrium: where AD meets AS
- Full employment: where SRAS meets AD curve on the LRAS curve
- Deflationary gap: where planned expenditure is less than the full employment level of income (occurs where AD<sub>2</sub> meets SRAS)
- Inflationary gap: where planned expenditure is greater than the full employment level of income (where AD<sub>3</sub> meets SRAS)

(a) Changes in aggregate demand



### Explain why a government may find it difficult to maintain a low rate of inflation as the economy approaches full employment

- Definition of full employment: is the level of employment where there is no demand-deficient unemployment, does not mean that there is no unemployment
- Definition of inflation: a sustained increase in the general price level
- Explanation using the AD/AS analysis
- As the economy approaches the full employment output level there are little resources left to employ and producers and consumers bid up the prices of commodities
- As the economy reaches the full employment the it reaches the vertical section of the LRAS and thus the price level of the economy will rise drastically if there is a further increase of AD



Evaluate the proposition that the priority in economic management should be the maintenance of low unemployment.

- Economic management definition: government policies and economic tools to achieve economic goals
- Macroeconomic objectives: low unemployment, low inflation, favourable balance of payments, economic growth
- Consequences of high unemployment:
  - Most serious consequence: loss of real output
  - Loss of government revenue – less ability to carry out fiscal policy and invest in other government projects
  - Increase in government spending on unemployment benefits
  - Lower standard of living (increased crime, inability to purchase necessities)
  - Increased inequality in the distribution of income
  - Other personal costs (cannot support family, leading to family problems)
- Other possible conflicts: causes low economic growth and unfavourable balance of payments as the economy does not produce as much goods so cannot export as much
- Importance of other goals
- Inflation: A sustained increase in the general price level
- Consequences of high inflation
  - Loss of purchasing power by consumers
  - Uncertainty – causes less investment by firms and investors
  - Redistribution effects – real value of fixed income is lowered, rich are likely to get richer as they hold fixed assets which have increasing prices
  - Unemployment and inflation are macroeconomic goals that are in conflict with each other, illustrated by the short run Philips curve
- Economic growth: a rise in the real GDP
  - Often low unemployment is synonymous with the economy's growth
  - High unemployment → loss of real output
  - Low unemployment → no loss of real output
  - Solving low unemployment also increases economic growth
- Economic management should prioritise low unemployment because low unemployment will help achieve economic growth as economic is producing at full capacity. Government revenue is also fundamental in employing interventionist supply-side policies, therefore low unemployment should be the priority of economic management.