

## MULTIPLE CHOICE

- |      |       |       |       |
|------|-------|-------|-------|
| 1. D | 6. B  | 11. D | 16. D |
| 2. A | 7. B  | 12. C | 17. C |
| 3. A | 8. A  | 13. C | 18. D |
| 4. A | 9. C  | 14. C | 19. B |
| 5. C | 10. C | 15. B | 20. D |

## SHORT ANSWER QUESTIONS

### Question 1

(a) Labour force participation rate =  $\frac{\text{Labour force}}{\text{Working age population}} \times 100$   
 $= \frac{12+1}{15} \times 100$   
 $= 86.7\%$

(b) Unemployment rate =  $\frac{\text{Unemployed}}{\text{Labour Force}} \times 100$   
 $= \frac{2}{2+11} \times 100$   
 $= 15.4\%$

(c) Unemployment rate in year 1 =  $\frac{1}{1+12} \times 100$   
 $= 7.7\%$

Unemployment rate in year 2 = 15.4%

Unemployment has increased from 7.7% in year 1 to 15.4% in year 2.

(d) An answer to this question may include any one of the following:

- A downturn in economic growth from year 1 to year 2 will cause an increase in cyclical unemployment. Some workers will lose their jobs as demand for labour falls due to reduced demand for goods and services.
- Technological change from year 1 to year 2 may cause unemployment to rise. The substitution of capital for labour will result in an increase in frictional and structural unemployment.
- Structural change between year 1 and year 2, such as the removal of protectionist barriers, will increase the rate of unemployment in the short-term as jobs are lost in inefficient industries.

- (e) During an economic downturn, some people stop looking for work because they do not think they will find a job. When economic growth occurs, these hidden unemployed return to actively seeking work because their chances of finding work seem greater. This causes an increase in the participation rate.
- (f) An answer to this question may include anyone of the following economic costs and any one of the following social costs :

*Economic Costs*

- When unemployment exists, the economy produces below its capacity. Lower total output leads to lower household income and expenditure, reducing demand for goods and services. In turn, this may lead to further unemployment.
- Unemployment leads to an increase in government expenditure on welfare payments and a decrease in the government's taxation revenue. As a result, the government has less money to spend on other public goods.
- Unemployment can lead to lower wage growth because it increase the supply of available labour. As a result, employers' bargaining power in wage negotiations grows, placing downward pressure on wage increases.

*Social Costs*

- Unemployment increases inequality of income, as those who are unemployed lose a source of income and may become reliant on government welfare payments, which is often below wage levels.
- The unemployed may experience a fall in self esteem levels. Their loss of work skills and personal contacts may leave them losing confidence in their prospects of finding work again.
- Increased levels of unemployment may cause social problems such as an increase in poverty and crimes rates. A poverty cycle may result, whereby the unemployed become a socially isolated group and their financial hardship becomes entrenched over several generations.

**Question 2**

- (a) Hidden unemployment refers to discouraged jobseekers who no longer actively seek work. Underemployed people, on the other hand, are employed members of the workforce. The underemployed work less than full-time hours, but would prefer to work more hours if possible.
- (b) Australia's unemployment rate has declined steadily from a high of 10.7% in the early 1990s to thirty year lows by 2006. These figures reflect the decrease in cyclical unemployment that has accompanied Australia's sustained period of economic growth. However, structural changes in previous decades have created high structural unemployment which persists today.
- (c) The Australian government's macroeconomic policies have successfully reduced cyclical unemployment. Its inflation-targeting monetary policy has maintained price stability, allowing for sustainable economic growth that has increased employment. Its fiscal policy has played a supportive role. Microeconomic policies have been used to address structural unemployment, with mixed success. Labour market reform has created greater labour market flexibility, increasing opportunities for employment. However, the persistence of structural unemployment suggests greater expenditure on training programmes is needed, such as the creation of Australian Technical Colleges in the 2005-06 Budget.

**Question 3**

- (a)** An answer to this question may include any two of the following types of unemployment:
- Structural unemployment occurs when the skills demanded in an economy do not match the skills an individual may possess.
  - Frictional unemployment occurs when an individual is between jobs, as it often takes time to find a new job.
  - Seasonal unemployment occurs because some industries have different levels of demand at different times of the year. Alternatively, workers have greater difficulty finding work at times when the market is flooded with job-seekers, such as at the end of the school or university year.
  - Cyclical unemployment occurs during an economic downturn, because a decrease in the demand for goods and services leads to lower production and a decrease in the demand for labour.
- (b)** When labour productivity increases, the same amount of workers can produce a greater amount of output. As a result, demand for labour may fall where productivity is high. Where labour productivity is too low, however, employers have a greater incentive to substitute capital for labour in the process of production.
- (c)** The natural rate of unemployment occurs when the economy is at full employment. It consists of seasonal, structural, frictional and hardcore unemployment. As no cyclical unemployment exists at the natural rate, any attempts to lower unemployment through expansionary policy may cause inflation.
- (d)** Structural unemployment is one of the components of the natural rate of unemployment. Structural unemployment can be reduced through retraining schemes that equip workers with skills demanded in the economy. Some initiatives include apprenticeship programmes and the provision of subsidised education such as TAFE and the Australian Technical Colleges established in the 2005-06 Budget.