

Unemployment

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Multiple Choice Answers

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

Short Answer Questions

Question 1

- a) Labour force participation rate = $\frac{\text{Employed} + \text{Unemployed}}{\text{Working age population}} \times 100$
 $= \frac{15 + 1}{20} \times 100$
 $= 80$ per cent
- b) Unemployment rate in year 2 = $\frac{\text{Unemployed}}{\text{Employed} + \text{Unemployed}} \times 100$
 $= \frac{2}{18} \times 100$
 $= 11.11$ per cent
- c) Unemployment rate in year 1 = $\frac{1}{15 + 1} \times 100$
 $= 6.25$ per cent

The unemployment rate has increased by 4.86 per cent.

- d) A decrease in economic growth, increasing cyclical unemployment.
- e) Hidden unemployment refers persons who have become discouraged from seeking employment and are no longer actively seeking work. When a person becomes hidden unemployed, they are no longer counted in the labour force since they are not technically unemployed. This means that a rise in hidden unemployment tends to reveal itself by a simultaneous fall in the official unemployment rate and the labour force participation rate.

- f)** Recent government policy to improve the labour force participation rate has focused upon reforming the operation of the welfare and taxation system. The 'Welfare to Work' policies of the Howard Government were designed to provide incentives for those on welfare to supplement their welfare payments with a part time or casual income. The policy gives persons who choose to undertake a small amount of work per week an additional welfare payment. This raises the participation rate, although only in part time and casual employment. The government has also recently focused on reducing the amount of tax paid on low income levels by raising the low income tax offset, which encourages people to work in part time or casual jobs because of the high effective tax free threshold. Finally, the government has focused on providing incentives for persons on the verge of retirement to remain in the workforce, such as by providing superannuation incentives, thereby slowing the rate at which retirees leave the labour force and raising the participation rate.

Question 2

- a)** Structural unemployment refers to those persons unemployed because of a mismatch between their work related skills and the skills demanded by employers in the economy.
- b)** Technological change which leads to capital substitution for labour and rapid changes in consumer demand.
- c)** Australia's unemployment rate rose sharply in the early 1970s reflecting an increase in structural unemployment which raised the natural rate of unemployment. The unemployment rate remained persistently high during the 1980s and early 1990s due to a number of recessions which raised the level of cyclical unemployment. Since the early 1990s, cyclical unemployment has fallen steadily due to a sustained period of economic growth. However, the natural rate of unemployment has remained relatively constant over the same period.
- d)** The government may use macroeconomic policy to reduce the level of cyclical unemployment. The government can use monetary policy to lower the level of interest rates in Australia. This would increase consumption and investment in the economy, increasing aggregate demand and economic growth. As aggregate demand increases, firms must demand more labour as an input into production, which lowers the level of cyclical unemployment. The government can also use expansionary fiscal policy (by lowering a budget surplus or increasing a budget deficit) to increase the level of aggregate demand and lower cyclical unemployment.

Question 3

- a)** The youth tend to have a higher rate of unemployment due to their relative lack of skills and experience. Also, those in rural areas tend to experience higher levels of unemployment due to fewer job opportunities and a lack of labour mobility.
- b)** Unemployment represents unused labour. Labour is the most important input into production and typically represents 60 per cent of a business' costs. Therefore, if labour is unused, it means that resources which could be used for productive purposes are unused. The opportunity cost of unemployment, therefore, is the loss in potential production which the labour resources could have been applied towards.
- c)** The natural rate of unemployment is the level of unemployment that is consistent with full employment in the labour market. That is, the amount of unemployment when the demand and supply of labour are equal. It is made up of structural (including long term and hard core), frictional and seasonal unemployment.
- d)** The government may reduce the natural rate of unemployment by targeting the level of structural unemployment. The government may provide retraining programs to help those structurally unemployed persons obtain new job-related skills in order to find employment in areas of the economy where jobs are available. The 'Skilling Australia for the Future' programme offers retraining places to the structurally unemployed to obtain skills relevant to areas in the economy experiencing the greatest skills shortages. The government may also reduce long term unemployment through the 'Work for the Dole' programme, which provides a minimum level of work skills to the unemployed and an employment reference. The government can also implement job information programs which reduce the time spent looking for new jobs. This may reduce the level of frictional unemployment. The Job Network is an example of this type of policy.

Class activity

- Frictional unemployment
- Underemployment
- Structural unemployment
- Hidden unemployment
- Hard core unemployment
- Underemployment
- Seasonal unemployment
- Cyclical unemployment
- Long term unemployment/structural unemployment
- Cyclical unemployment