

Labour Market Outcomes

10

Multiple Choice

- | | | |
|--------|--------------------|---------|
| 1. (A) | 6. (C) | 11. (C) |
| 2. (B) | 7. (C) | 12. (B) |
| 3. (C) | 8. (C) | 13. (A) |
| 4. (B) | 9. (C) | 14. (D) |
| 5. (C) | 10. Question error | 15. (B) |

Short Answers

Question 1

- (a). The real wage is the actual rise in purchasing power of wages. It is calculated by taking the nominal wage (or money wage) and adjusting it to remove the effects of price increases in the economy.
- (b). When real wage growth is higher than growth in productivity, real labour costs – that is, the cost of labour per unit of output produced - will increase. Higher real labour costs will erode the profit margins of businesses. The consequence of that may be that employers will substitute capital for labour in their production methods, resulting in a higher rate of unemployment. Higher real wages in excess of productivity growth may also mean that firms pass on the higher costs to consumers, resulting in higher prices for goods and services in the economy.
- (c). A correct answer may include any two of the following:
- Inequality in the distribution of income encourages workers to increase education and skills levels due to the incentive of earning a higher income. This results in an improvement in the quality of the labour force.
 - The prospect of higher incomes can act as an incentive for entrepreneurs to take the risks associated with business, which increases investment and production in the economy, leading to higher economic growth.
 - Inequality may encourage employees to work longer and harder and improve their labour productivity, driven by the possibility of earning a higher income.
 - Increased labour mobility is a benefit of inequality as it encourages workers to move where labour is most needed, improving resource allocation and economic growth.

- (d). A correct answer would include any two of the following:
- Varying levels of skills and experience between workers in the same occupation will result in differences in wages. Higher skilled and experienced employees will generally have higher productivity and produce higher quality products and will be paid a higher income.
 - Different firms within an industry may have different capacities to pay, leading to different wages depending on the firm. Highly profitable firms are able to pay higher wages and attract better-skilled employees, which can lead to a further improvement in the firm's performance.
 - The productivity of labour influences the amount workers in the same occupation are paid. A worker who is highly productive will produce more output than a worker with low productivity, and so the firm will be able to pay the highly productive worker higher wages.

Question 2

- (a). Cyclical unemployment occurs as a result of a downturn in the economic business cycle. When the demand for goods and services falls, firms are forced to cut back production and lay off workers in order to maintain their profit levels.
- (b). Australia's unemployment rate has tended to fluctuate with the Australian business cycle. Unemployment peaked at about 11 per cent in the early 1990s as a result of the 1991 recession, which saw a sharp drop in production. Following that recession, however, unemployment levels began to fall steadily as Australia went through a period of sustained economic growth lasting almost 20 years. This trend was reversed in 2008-09, when the global financial crisis damaged business and consumer confidence, and firms were forced to cut production and employment.
- (c). When workers in declining industries are laid off, they may not have the skills required to gain employment in emerging industries, and therefore become structurally unemployed. Also, new technology may eliminate some jobs, or change the nature of work so that those who had performed the work no longer have the skills to do so.
- (d). The official unemployment rate measures the percentage of the labour force that is without work but actively seeking employment. Since the hidden unemployed are not actively seeking work, they are not counted amongst the unemployed or the labour force. If economic conditions improve, and aggregate demand in the economy starts to rise, cyclical unemployment will fall. The hidden unemployed may become encouraged to start looking for work, and as they are now actively seeking work, they are counted as unemployed, increasing the unemployment rate. If the amount of hidden unemployed who begin looking for work is greater than the number of new jobs created, the unemployment rate will rise.

Question 3

- (a). Labour force = $8 + 4 + 4 = 16$ million (full time + part time + not employed but actively seeking work)
- (b). Labour force participation rate = $16/36 \times 100 = 44.4\%$ (labour force divided by working age population)
- (c). Unemployment rate = $4/16 \times 100 = 25\%$ (persons not employed but actively seeking work, divided by labour force)
- (d). An unemployed person must be of working age (over the age of fifteen) without a job and actively seeking work.
- (e). Part-time employment occurs when employees have a regular pattern of work, but work less than 20 hours per week. Casual workers, in contrast, have occasional working hours but do not follow any set pattern. Casual employment is more flexible and often gives less job security to employees.
- (f). A correct answer may include any two of the following:
- Casual employment is attractive to some workers as it allows them to balance work with other responsibilities, such as family commitments or study.
 - Employers have increased their use of casual employment as it allows them to easily vary the hours worked by each employee to meet the demand for their product.
 - Employers may prefer casual employment as they are entitled less benefits than full time workers, such as holiday leave and redundancy pay.