

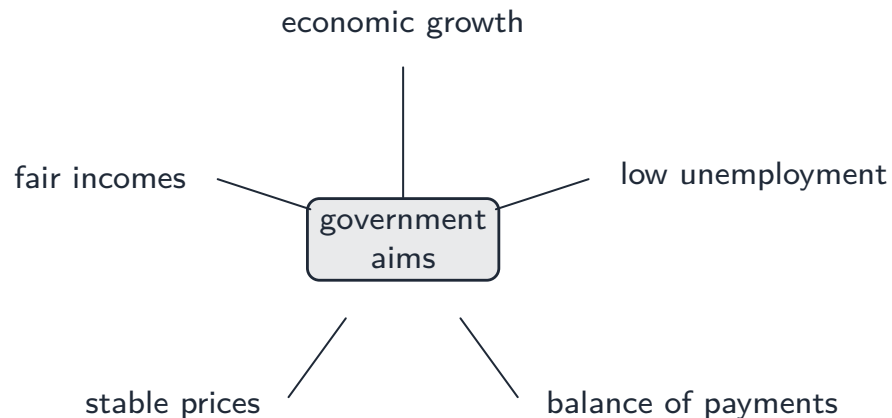
Exercise walk-through

4.6

Employment and unemployment

IGCSE Economics

Government aims



Five **macroeconomic** aims:

- **economic growth**
- **full employment**
- **price stability**
- **balance-of-payments stability & fair incomes**

Aims can **conflict**.

Policy tools

- **fiscal policy** —
spending & tax
- **monetary policy** —
interest rates, money supply and
exchange-rate measures
- **supply-side policy** —
improving the economy's capacity



Central banks set the monetary tools

Policy tools – overview

Original policy choices: identify the tool and the mechanism

A government cuts income tax during weak spending. The central bank lowers its policy interest rate. A training programme helps unemployed mechanics qualify for new jobs.

Tool	Possible mechanism	Important limit
Fiscal	Lower tax leaves households more income to spend.	Households may save the extra income.
Monetary	Cheaper borrowing may encourage spending and investment.	Firms with few orders may still avoid borrowing.
Supply-side	Relevant skills may increase employability and capacity.	Training takes time; suitable vacancies must exist.

Supply-side tools, by name

Privatisation

Privatisation : selling a state industry to private owners, which may change incentives; private ownership alone does not create competition.

Deregulation

Deregulation : removing rules that keep new firms out, so incumbents face competition.

Incentives

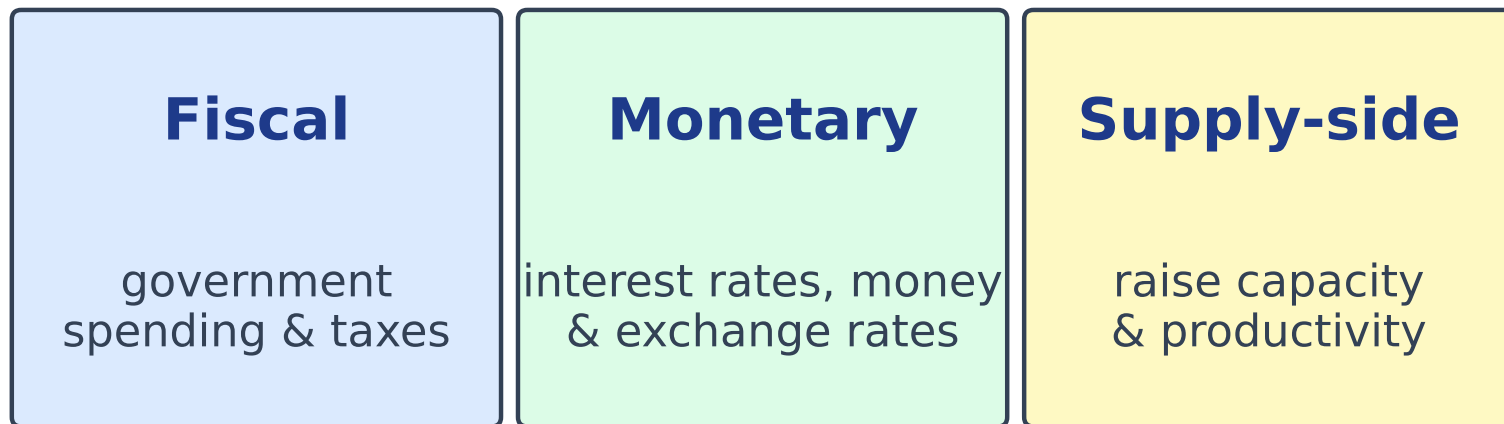
Lower marginal tax rates and targeted subsidies change the **incentives** to work, save and invest.

Training

Relevant training can raise **productivity** and capacity when skills meet firms' needs; results take time.

Supply-side policy shifts what the economy *can* produce. Demand-supporting policy can use spare capacity; spending on training or equipment can also affect future capacity.

Policy tools – overview, in detail



Exam: fiscal = G & T; monetary = interest rate / money; supply-side = capacity & productivity

The government's three sets of policy tools for managing the macroeconomy

Exercises 2.1-2.3

2.1 Define the term *unemployment*.

[2]

2.2 Identify two types of unemployment.

[2]

2.3 State one way unemployment is measured.

[1]

Exercises 2.1-2.3

2.1 Define the term *unemployment*. [2]

2.1

- **unemployment** is people who can work and want to work but **cannot find a job** (K)

2.2 Identify two types of unemployment. [2]

2.2

- any **two** of: **frictional** / **structural** / **cyclical** / **seasonal** (K, K)

2.3 State one way unemployment is measured. [1]

2.3

- the **claimant count** or the **labour force survey** (K)

Exercises 3.1·3.2

3.1 Unemployment caused by a recession (low total demand) is:

[1]

☐

A frictional unemployment

B structural unemployment

C cyclical unemployment

D seasonal unemployment

3.2 Explain the difference between **frictional** and **structural** unemployment.

[4]

Exercises 3.1-3.2

3.1 Unemployment caused by a recession (low total demand) is:

[1]

☐

- A frictional unemployment
- B structural unemployment
- C cyclical unemployment
- D seasonal unemployment

3.1 C

- a recession with low total demand causes **cyclical unemployment** (K)
- A is between jobs; B is a shrinking industry; D is time of year

3.2 Explain the difference between **frictional** and **structural** unemployment.

[4]

3.2

- **frictional** unemployment is short-term, when a worker is **between jobs** (K)
- **structural** unemployment happens when a whole industry shrinks and workers' skills are no longer wanted (An)
- one is brief and normal; the other is **longer-term** and harder to fix (An)

Exercise 3.3

3.3 Analyse the effects of high unemployment on a country.

[6]

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[6]

3.3

- unemployed **workers** lose income and may lose skills (K)
- the **country** loses output; the **government** pays more in benefits and collects less tax (An)
- **society** may suffer more crime and poorer health – high unemployment is costly (An)