

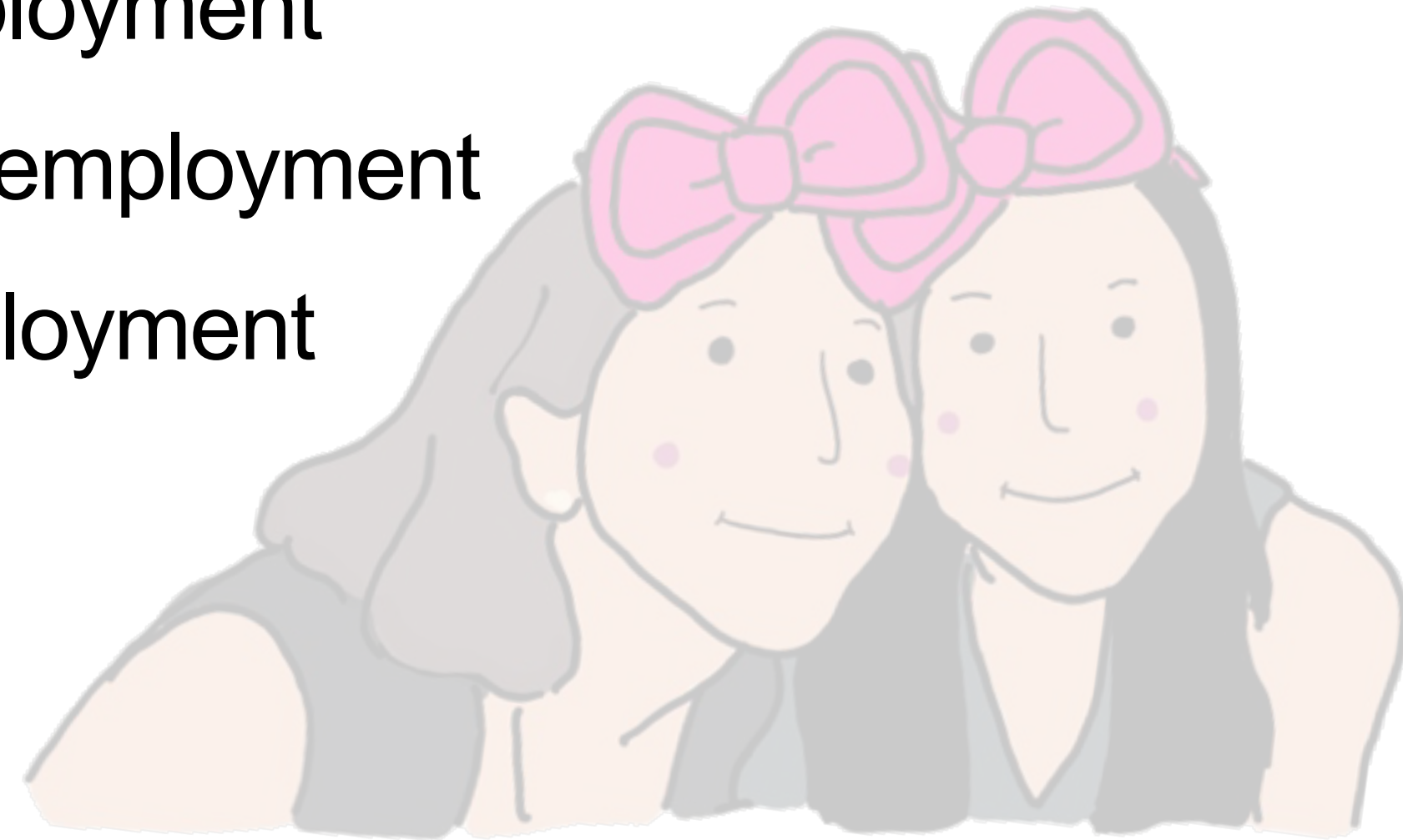


MACROECONOMICS - Employment and unemployment

By Kru P'Da and Kru P'Eve Knockout.Economics

Overviews

1. Employment, unemployment, full employment
2. Measurement of unemployment
3. Changes in the level of employment
4. Causes/types of unemployment



1. Employment, Unemployment, Full employment

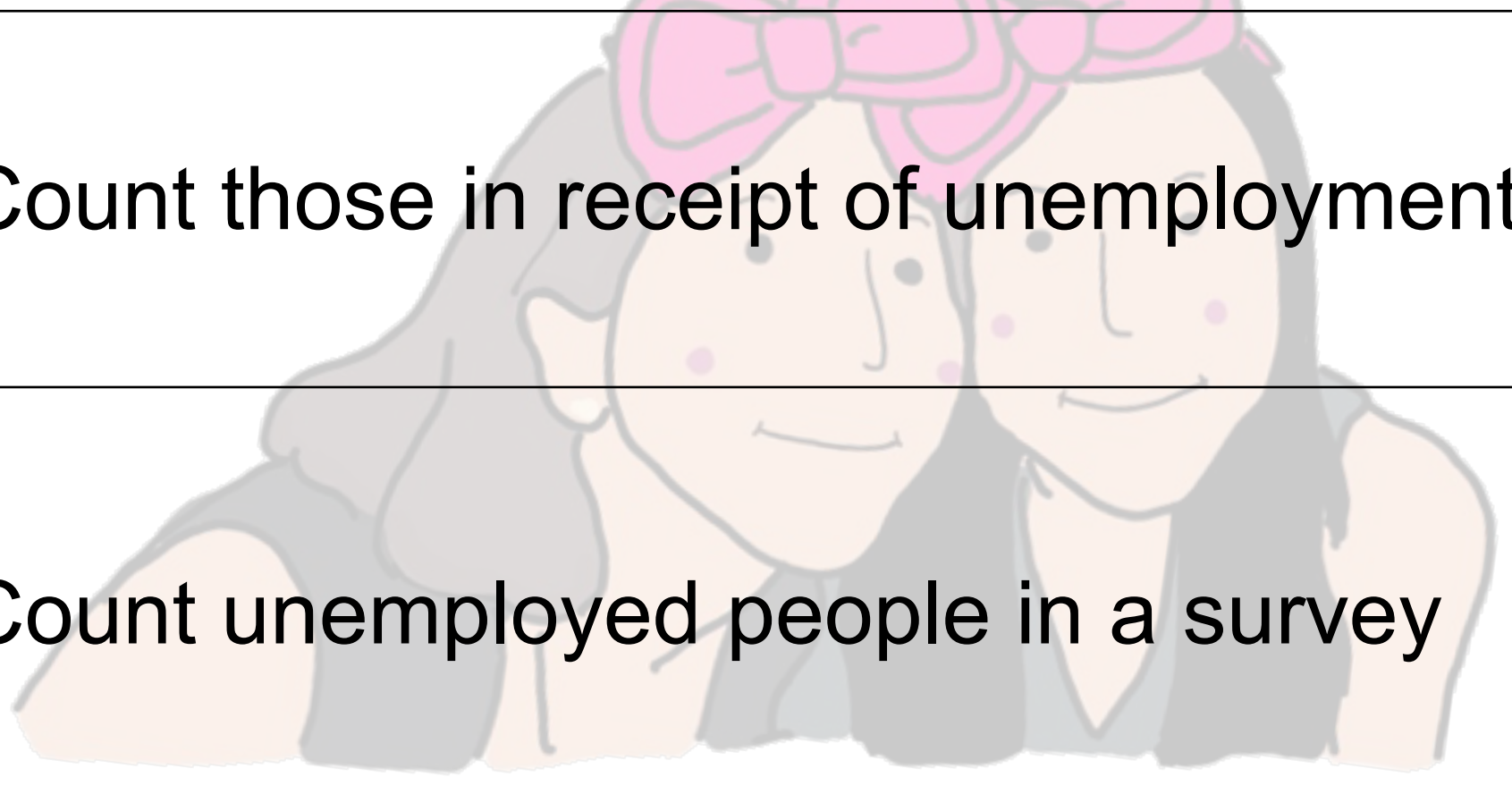
Employment, Unemployment and Full employment

Employment	People who are willing and able to work and they get jobs.
Unemployment	People who are willing and able to work but they do not get jobs.
Full employment	When people who are willing and able to work get a job. Unemployment is at its lowest possible rate.
Unemployment rate	$\frac{\text{Unemployment}}{\text{Labour force (Em+Unem)}} \times 100$

2. Measurement of unemployment

Measures of unemployment

Claimant count	Count those in receipt of unemployment benefits
Labour force survey (ILO)	Count unemployed people in a survey



3. Changes in the level of employment

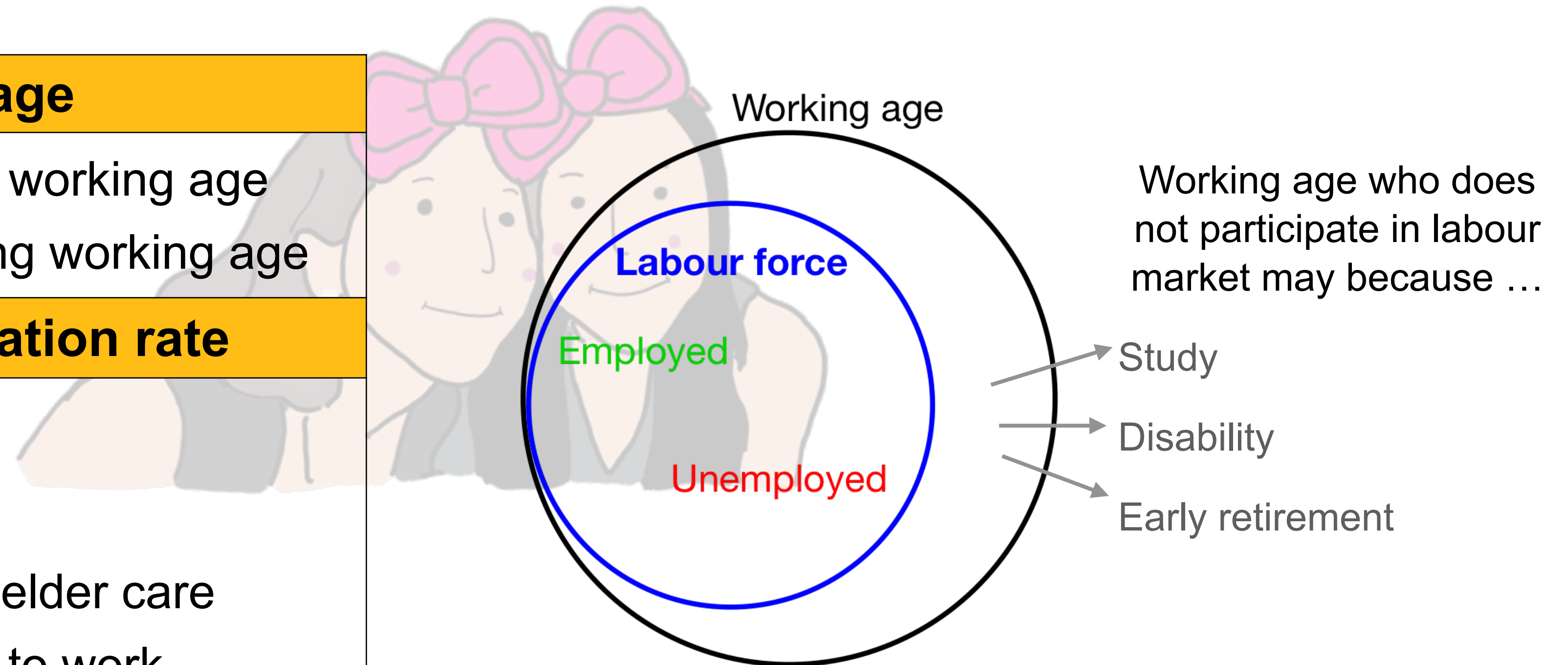
Changes in the level of employment : it depends on the size of working age and labour force participation rate.

1. The size of working age

- Net immigration => rising working age
- Higher population => rising working age

2. Labour force participation rate

- The wage on offer
- Working woman
- Provision of children and elder care
- The provision of disabled to work
- School leaving age



4. Causes/types of unemployment

1. Frictional unemployment

When workers are between job.

2. Seasonal unemployment

When workers are not demanded in some period of the year
e.g. workers in tourism.

3. Structural unemployment

When there is a decline of industries and the jobs, the skills are no longer wanted.
e.g. an industry moves out of the country.

4. Regional unemployment

Decline in jobs in a particular area.

5. Technological unemployment

A workers are replaced by machines.

6. Cyclical unemployment

During recession there is the lack of spending. Then demand for labour is likely to fall.

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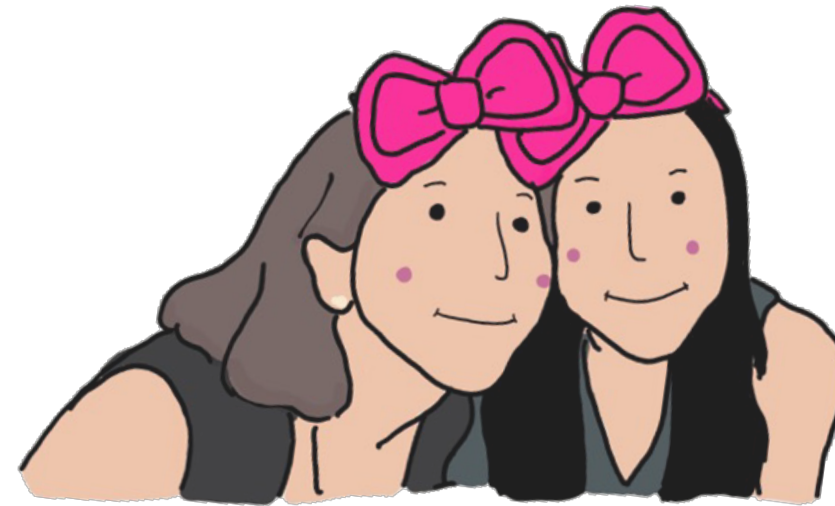
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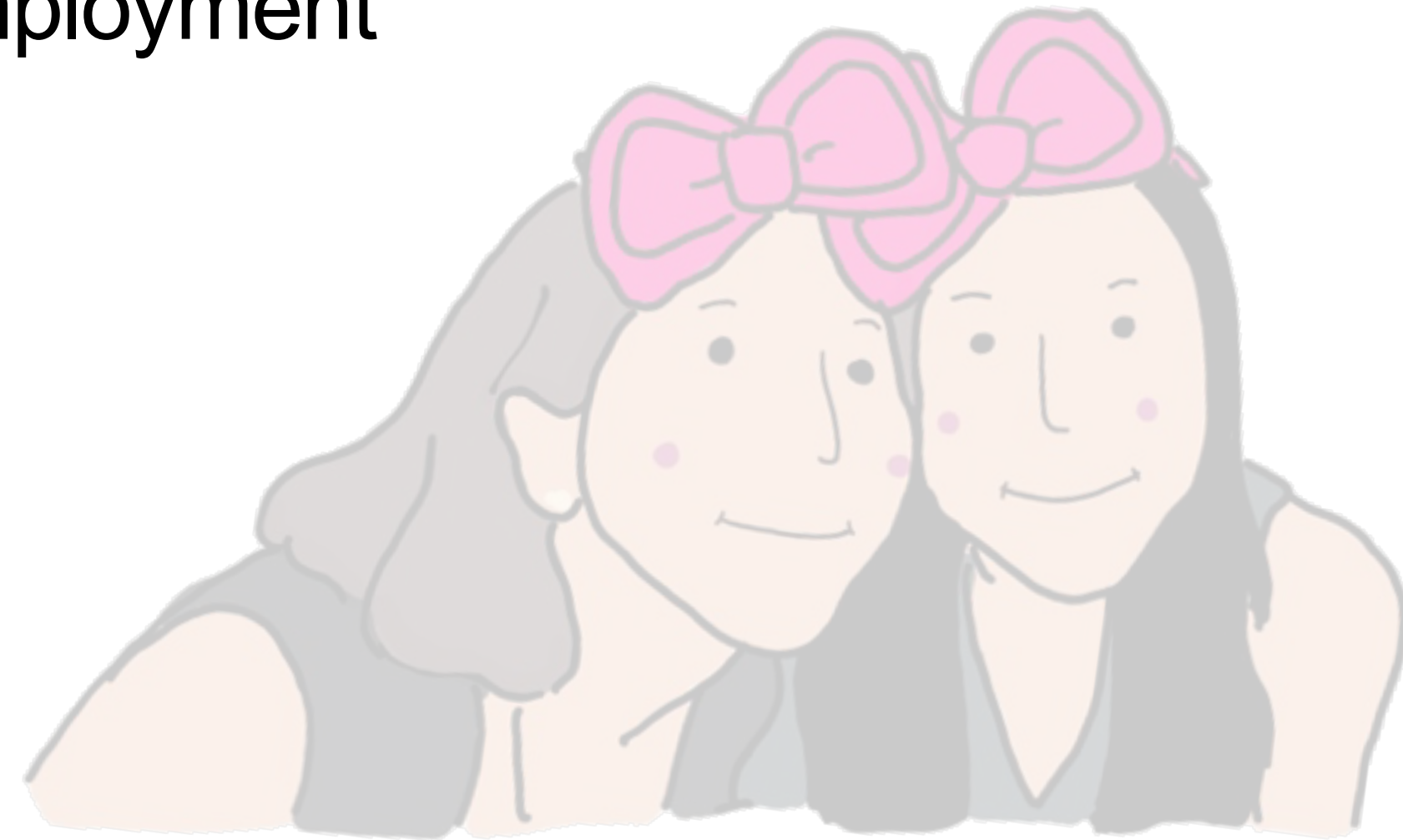
MACROECONOMICS -

**Consequences of unemployment &
Policies to reduce unemployment**

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Overviews

1. Consequences of unemployment
2. Policies to reduce unemployment



1. Consequences of unemployment

• Negative consequences

1. Unemployed people do not have income and they may have **lower living standards**.
2. **Firms have lower profits** as unemployed people do not have income for spending.
3. **Inefficient use of resources** as labors are not fully used to produce outputs.
4. **Lower national income and output**.
5. Government gains **lower tax revenue** and has **higher expense on unemployed benefits**.

• Positive consequences

1. High unemployment causes **lower inflation**. A lot of unemployed workers available reduces wage offered by firms, resulting in lower cost of production and lower price of outputs.
2. High unemployment reduces spending on imported goods and **improves trade balance**.
3. When workers change a job, they may **get higher wage** and have better living standard.

2. Policies to reduce unemployment

Policies to reduce unemployment

1. To reduce frictional unemployment by supply side policy

e.g. reducing income tax & cutting unemployed benefits make incentive for unemployed workers to search for new jobs.

2. To reduce structural unemployment by supply side policy

e.g. Providing education and training create new skills and qualified then workers can change a job.
e.g. Subsidy on new industries in areas with high unemployment.

3. To reduce cyclical unemployment by expansionary fiscal and monetary policy to rise AD

e.g. Government spending increases to creates jobs.
e.g. Lower interest rate encourages people to spend. Firms employ more labors to produce products.

Limitation of policies to reduce unemployment

1. **If quality of education and training is poor**, it cannot improve workers' productivity. Unemployment may not reduce.
2. Expansionary fiscal and monetary policy increase AD and it can cause **inflation and higher cost of living**.
3. The effectiveness of expansionary fiscal and monetary policy to reduce unemployment depends on **consumer and business confidence**.
4. It has **opportunity cost from government spending**. And, too much government spending can cause **national debt**.

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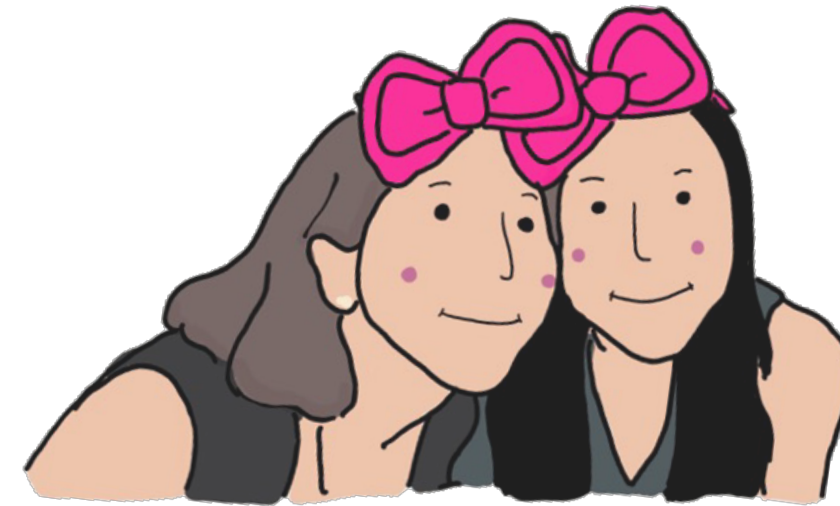
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MACROECONOMICS - Exercise

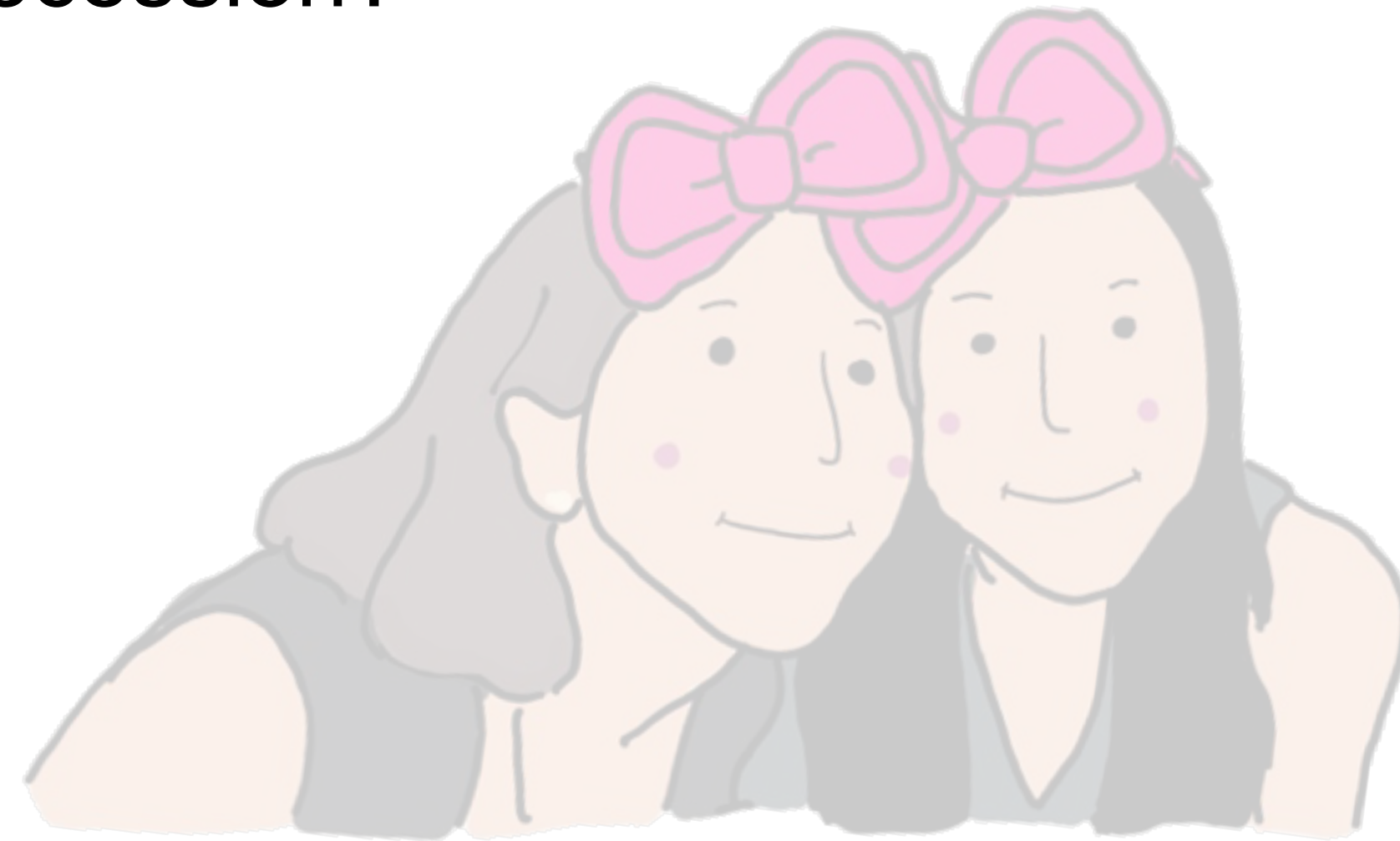
Employment and unemployment

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Exercise: MCQ

1.) Which type of unemployment occurs when the demand for goods and services in the economy falls or during recession?

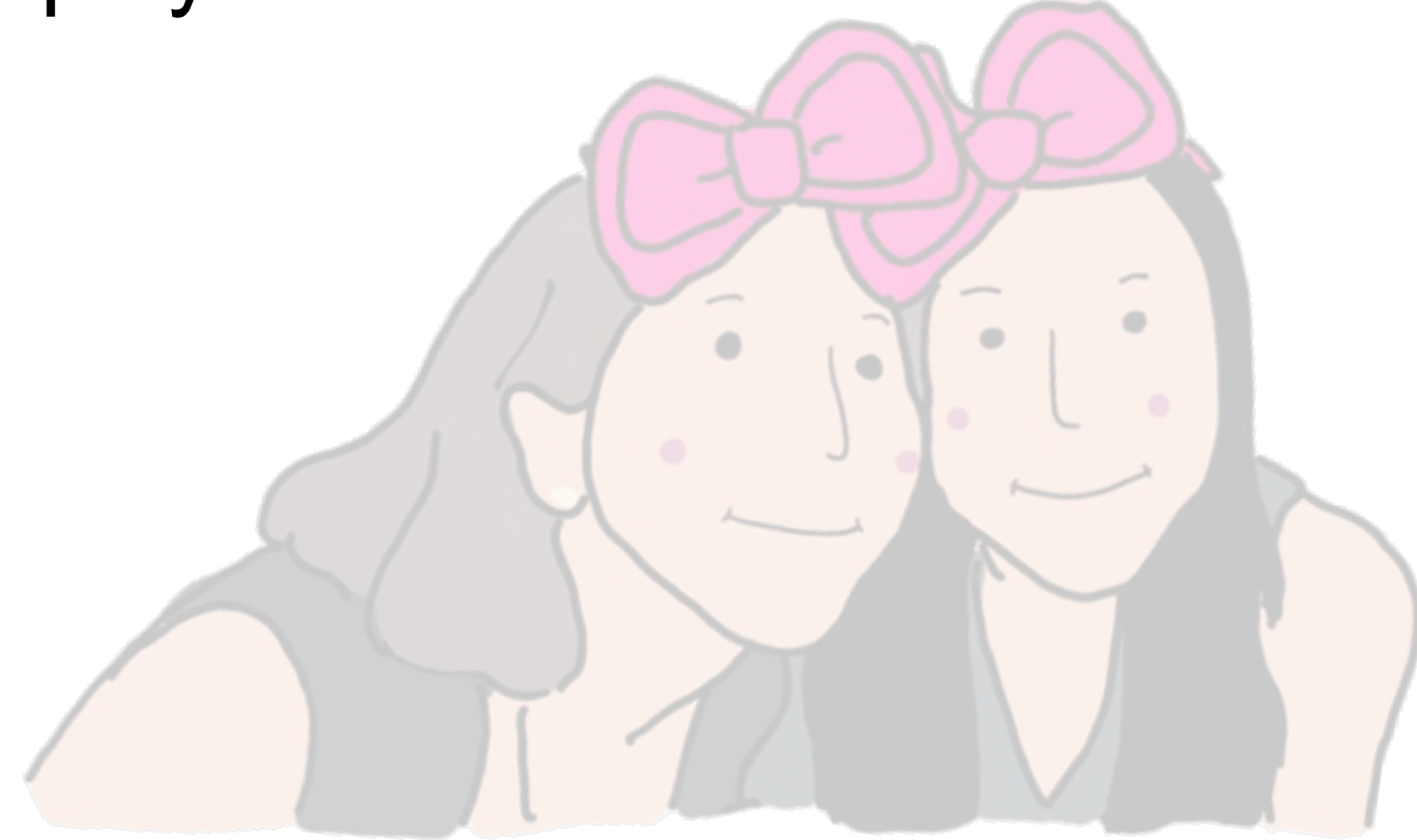
- A cyclical*
- B frictional
- C seasonal
- D structural



Exercise: MCQ

2.) As a result of a decrease in the demand for oil, many oil refinery companies were closed. What type of unemployment would this cause?

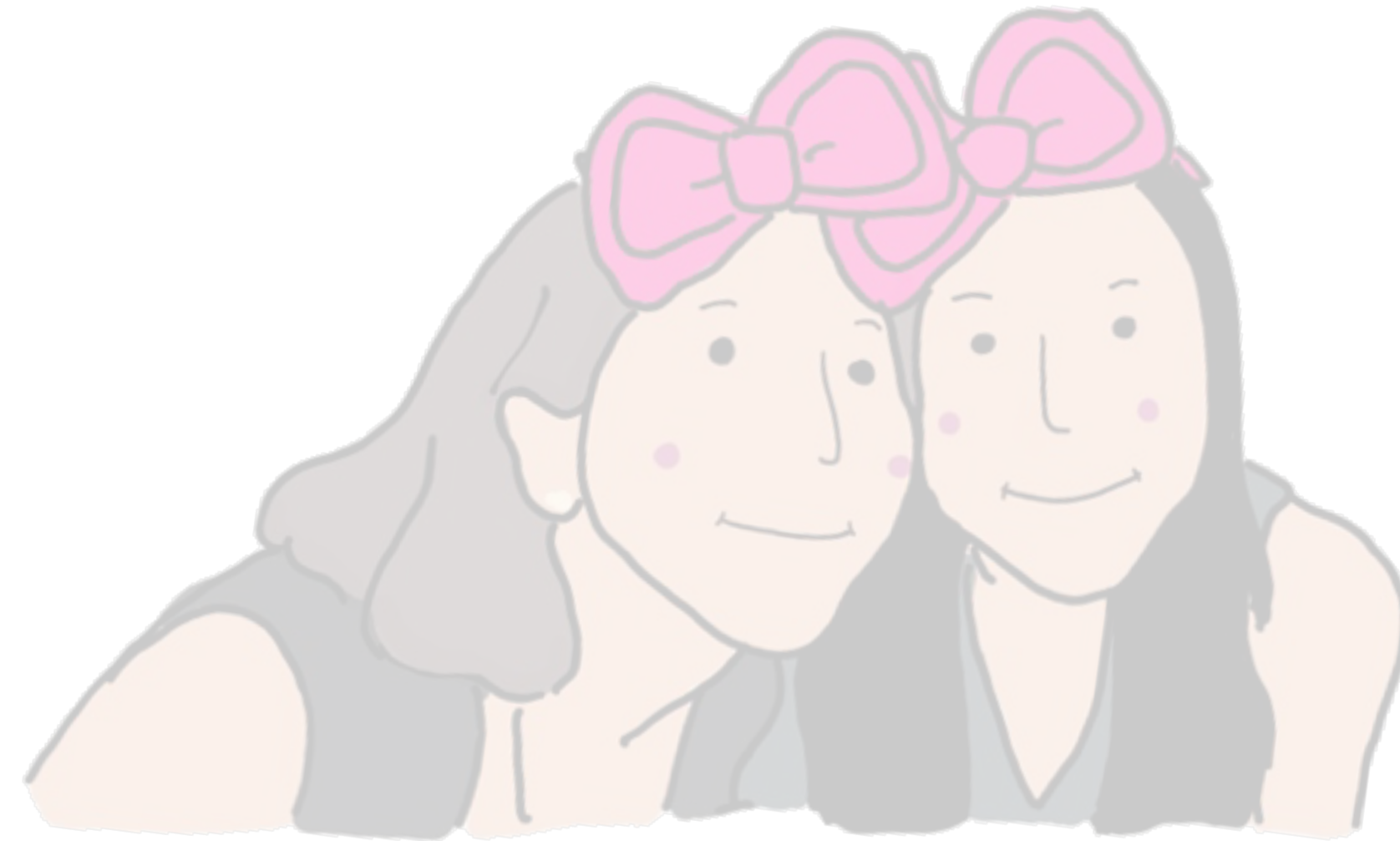
- A cyclical
- B frictional
- C seasonal
- D structural*



Exercise: Essay

1.) Discuss whether a cut in taxes will reduce unemployment. [8]

Why it might:



Why it might not:

Exercise: Essay

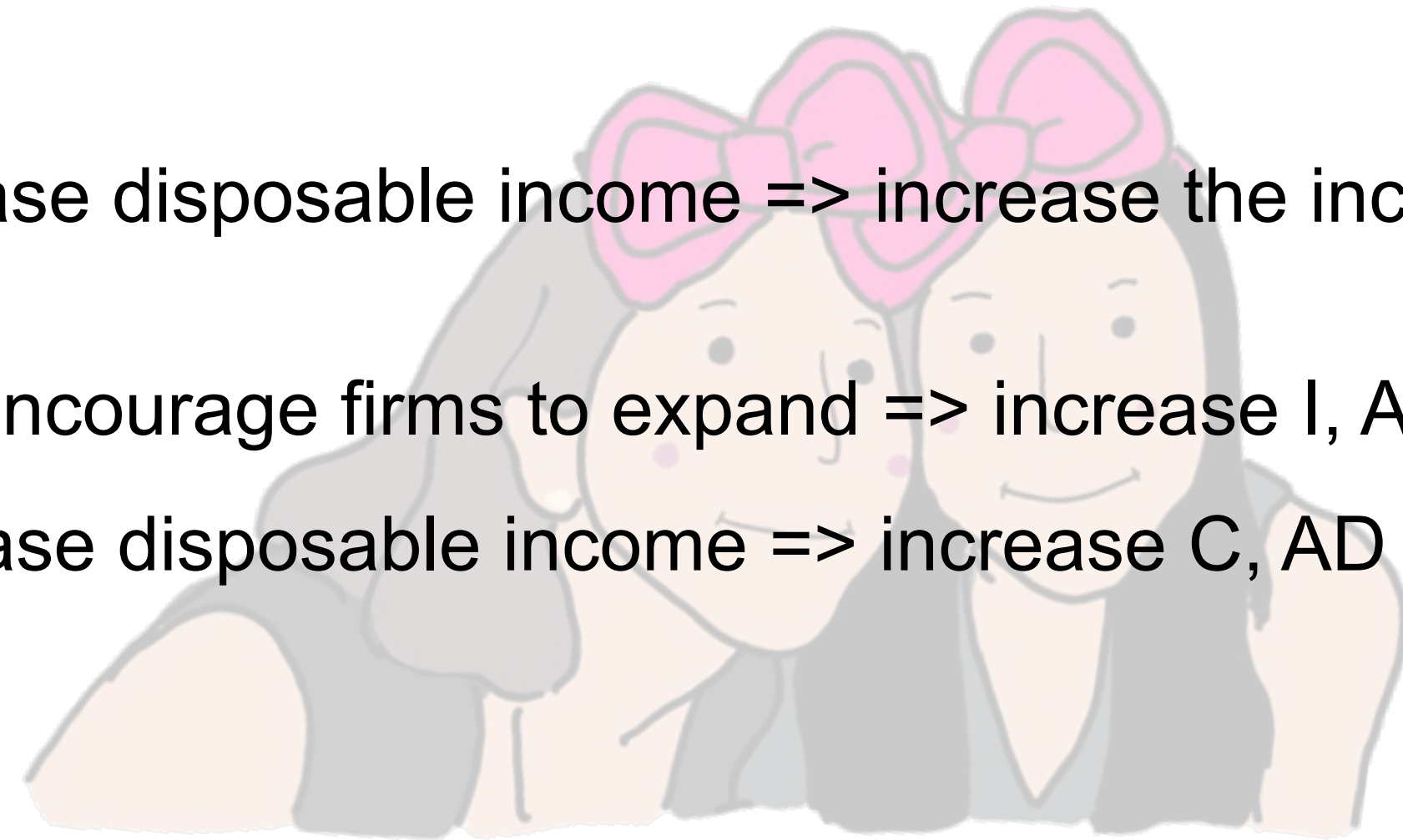
1.) Discuss whether a cut in taxes will reduce unemployment. [8]

Why it might:

- **A cut in income tax** => increase disposable income => increase the incentive to work => reduce frictional unemployment.
- **A cut in corporation tax** => encourage firms to expand => increase I, AD => reduce cyclical unemployment
- **A cut in income tax** => increase disposable income => increase C, AD => reduce cyclical unemployment

Why it might not:

- **A cut in corporation tax** may not encourage firms to expand businesses, if they **lack of confidence**.
- **A cut in income tax** may not encourage consumers to spend more, if they **lack confidence**.
- **A cut in tariffs may increase imports** => It reduces domestic consumption and employment.
- **A cut in corporation tax** may encourage firms to **use more capital-intensive methods**, causing technological unemployment.



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