



# UNEMPLOYMENT

## Multiple choice

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

## Short answer questions

### Question 1

- (a) **Labour force = All those aged 15-65 who are looking for work, and those who are working**  
 = employed + unemployed  
 = 100,000 + 1,200,000  
 = 1.3 million
- (b) **Unemployment rate = No. unemployed/ Labour force**  
 = 103,000/ (1,150,000 + 103,000)  
 = 8.2%
- (c) **Participation rate = labour force/ working age population (WAP)**  
 Labour force = 1,100,000 + 106,000 = 1,206,000  
 So, 0.60 = 1,206,000 / WAP

**Therefore:**

**Working age population = 2,010,000**

- (d) **One possible cause of the fall in participation rates from year 1 to year 3 could be a fall in the level of economic growth creating a 'discouraged worker effect'. The unemployed become discouraged from seeking work as a result of decreasing job opportunities in an economic downturn, and although they do not have a job they stop 'actively seeking work'.**

**Another cause of a fall in the participation rate could be people retiring at a younger age. As people retire at a younger age, this will see a fall in the size of the labour force, but the working age population will remain the same – and thus the participation rate will decrease.**

- (e) **Globalisation has changed the operation of global labour markets by removing market barriers and allowing for greater mobility of labour. Globalisation has impact labour markets at both ends of the skills spectrum. Highly skilled workers are increasingly able to locate to different countries where they can receive the highest income. This has resulted in a 'brain drain' in some economies as their supply of skilled labour dwindles due to global labour flows – particularly damaging for low income countries.**

**Globalisation has also seen an increase in the flows of low skilled workers between countries. This has primarily been as a result of reduced border controls, but also the need in high income countries for low skilled labour. As a result, migration levels in places such as Europe have been increasing over the last 20 years. There is also a great danger than countries with low skilled workers will become embroiled in a 'wage race to the bottom' in an attempt to exploit their already cheap labour markets and attract investment from countries with high labour costs.**

## **Question 2**

- (a) • **Unemployment has a large opportunity cost associated with it – a loss of productive capacity. This loss of productive capacity occurs because labour, one of the inputs to production, is under-utilised if people are not employed. It is interesting to note, however, that the Government's 'Work-for-the-Dole' program, which forces those receiving unemployment benefits to work in exchange for their unemployment benefits, will reduce this effect.**
- **Unemployment result in greater income inequality in an economy. The unemployed will naturally receive lower incomes than the employed, widening the income gap (although this is somewhat stabilised by unemployment benefits). Income inequality will also increase because of the regressive nature of parts of the tax system, most notably the GST, which impacts most severely on low income earners.**
- (b) **Australia's unemployment rate is currently at 6.0% (February 2003). For the first time since the late 1980s, Australia has an unemployment rate that is below the average for the world's industrialised countries. The late 1990s saw strong gains on the employment front for Australia, with reductions in unemployment largely due to a reduction in cyclical unemployment. Australia is now entering its twelfth year of consecutive economic growth, and this has provided a windfall for Australian unemployment levels.**

**In October 2002, Australia's unemployment rate fell to 6.0% - its lowest level since 1989. During 2002, our strong unemployment performance was driven by:**

- **Strong economic growth at 4% in 2001-02**
- **Strong employment growth**
- **Lower productivity growth increasing the demand for jobs**

**Despite the decline in the unemployment rate in recent years, structural unemployment still poses a significant problem for the Australian government. The OECD's recent survey of the Australian economy concluded that a range of labour market reforms have reduced the natural rate of unemployment to 5.5 per cent. This compares with a Treasury estimate in 1999 that Australia had a structural unemployment rate of 6.5%. Despite this improvement, the fact that structural unemployment constitutes around 90% of our unemployment means that further reductions are unlikely without risking inflation – unless further structural reforms are pushed through.**

**Question 3**

- (a) **Imposing a minimum real wage rate of  $W_1$  will cause a disequilibrium in the labour market, creating unemployment equal to  $Q_2 - Q_1$ .**
- (b) **Hidden unemployment occurs when people are out of work, but are not officially classified as unemployed as they have either not registered with the Job Network or have not satisfied the requirements to prove they are actively seeking work. On the other hand, structural unemployment is counted as part of the unemployment rate. Structural unemployment occurs where there is a mismatch of skills in the labour market, meaning that the skills which employers require from workers are not the same as the skills belonging to those looking for jobs.**
- (c) **Australia's strong economic growth record over the last decade has had a significant impact on the level of unemployment. Averaging over 3% during the 1990s, this strong economic growth was the primary driver behind the fall in unemployment below 7% in the late 1990s (from a peak of 10.7% in 1992-93) and allowed unemployment to trend down to 6.0% in October 2002. Our strong growth has virtually removed cyclical unemployment in the economy, with many now speculating that structural unemployment constitutes 5.5% of our unemployment rate. Australia's strong 4% growth in 2001-02 was particularly helpful for unemployment, leading to strong employment growth which saw unemployment fall to its lowest level since 1989.**
- (d) **Unemployment can be caused by a range of demand and supply factors. Supply factors include the age, background, experience and skills of those people looking for work – factors which can vary greatly between groups in society.**

**In Australia, young people aged 15 – 24 suffer the highest rates of unemployment. High youth unemployment comes about because employers want to hire workers who already have skills and experience, rather than bear the costs of training new workers. At present, the youth unemployment rate is much higher than the unemployment rate, at a rate of almost 12%. Older Australians are also disadvantaged in the labour market – due to employer concerns regarding the cost of hiring these workers for a short period of time, which occurs because of their impending retirement. Immigrants may also find it more difficult to find work due to discrimination and language difficulties and Aboriginal and Torres Strait Islanders can find it hard to find work because of their disadvantaged position within society.**