

# 10

# Labour Market Outcomes

## Multiple Choice Answers

<b>1</b>	C	<b>6</b>	A	<b>11</b>	C
<b>2</b>	D	<b>7</b>	B	<b>12</b>	B
<b>3</b>	C	<b>8</b>	C	<b>13</b>	A
<b>4</b>	A	<b>9</b>	C	<b>14</b>	D
<b>5</b>	A	<b>10</b>	D	<b>15</b>	B

## Short Answer Questions

### 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 to remove the effects of price increases.
- (b) Wages are the reward for labour as an input to production. Higher worker productivity means workers are producing more output for the firm. This would increase the output of the firm, increasing overall revenue with no change in labour costs. This will allow the firm to raise wages for workers. The possibility of earning higher wages may also act as an incentive to workers to raise their own productivity.
- (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) Structural unemployment occurs due to a mismatch between the skills employers require and those possessed by the unemployed. It can occur due to the development of new technologies and the emergence of new industries.
- (b) Australia's unemployment rate has tended to fluctuate with the Australian business cycle, especially in the 1980s and early 1990s. After peaking in the early 1990s at around 11%, unemployment has been steadily falling.
- (c) A downswing in the business cycle will reduce aggregate demand for goods and services in the economy. A firm's demand for labour is derived from the demand for goods and services, so a downturn in aggregate demand will reduce demand for labour, and firms will be likely to lay off workers. This will increase cyclical unemployment.
- (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 =  $4 + 2 + 2 = 8$  million
- (b) Labour force participation rate =  $\frac{8}{18} \times 100 = 44.4\%$
- (c) Unemployment rate =  $\frac{2}{8} \times 100 = 25\%$
- (d) An unemployed person must be of working age (over the age of fifteen) without a job and actively seeking work.

- (e) A correct answer to this question may include any two of the following:
- To undertake full-time study (e.g. a tertiary course)
  - A person may have retired from the workforce
  - To spend time for leisure and recreation (e.g. a holiday)
  - To undertake unpaid labour (e.g. domestic duties or raising children)
- (f) Australia's unemployment rate peaked at 10.7% during the early 1990s due to a recession which raised cyclical unemployment, and the effects of structural change in the Australian economy in the 1980s and 1990s which raised the level of cyclical unemployment. Since the early 1990s, Australia has experience a long period of sustained economic growth which has reduced cyclical unemployment significantly, however significant problems with structural unemployment still remain.

## Skills Revision

The types of unemployment should appear in the following order:

- Structural
- Hard-core
- Frictional
- Cyclical
- Seasonal
- Long-Term
- Cyclical
- Frictional
- Structural
- Hidden