

Governments in economies worldwide solve unemployment problems through employing loose monetary policy and reinvestments in human capital.

(a) Explain the **trade-offs** that a government might face in solving the problem of unemployment. [10]

Suggested Approach:

Introduction

Define : Loose MP, Reinvestment in HC, Cyclical U/Structural U

Development

1: Exp DMP to solve DD-deficient UE causes DD-pull inflation

Exp MP (↓ IR)

- Raise $C_d + I \rightarrow \uparrow AD \rightarrow \uparrow \text{Output}$
- $\uparrow DL \rightarrow$ resolve DD-deficient UE
- Excessive $\uparrow AD \rightarrow$ drives up factor prices
 \rightarrow Higher unit COP $\rightarrow \uparrow P \rightarrow$ DD-pull inflation

2: Exp DMP to solve DD-deficient UE causes BOP to worsen

Exp MP $\rightarrow \uparrow$ GPL (inflation)

- $\uparrow P_x, \downarrow P_m$
- Lower qty demanded of X, Higher DD for M
- $[X-M]$ worsen if $PED_x > 1 \rightarrow$ BOP worsens

3: SSP to solve Structural UE draw resources away from more immediate needs and outcomes are uncertain

- G on training + skill upgrading $\rightarrow \uparrow Q_{ly}$ of labour $\rightarrow \downarrow$ labour immobility $\rightarrow \downarrow$ Structural UE

*Include evaluative points

Conclusion

Answer the Qn by providing a **reasoned judgement**.

Governments in economies worldwide solve unemployment problems through employing loose monetary policy and reinvestments in human capital.

(b) Discuss the view that Singapore would be better off reducing unemployment through the use of exchange rate policy. [15]

Suggested Approach:

Introduction

Qn interpretation : The policy choices employ to solve unemployment problems depend on nature & state of economy restricting the usage of certain economic policies and the type of unemployment.

Development

1: D1 – Yes, ERP is effective in reducing cyclical unemployment → SG is better off

- Open economy → External demand is large → ERP is effective in boosting external demand

2. D2 – No, ERP is not the best method to reduce unemployment → SG is not better off.

- FP is better when the unemployment is due to a sharp serious recession because it instil consumers' and producers' confidence

3. D3– No, ERP is not the best method to reduce unemployment → SG is not better off.

- SSP are better if there is structural unemployment

*Include evaluative points

Conclusion

Answer the Qn by providing a **reasoned judgement**.

Part (a)

	Knowledge, Application, Understanding and Analysis	
	Descriptor	Mark
L 3	For an answer that <u>analyses</u> at least two macroeconomic conflicts that may arise when lower unemployment is pursued	7-10
L 2	For an answer that <u>describes</u> at least two macroeconomic conflicts that may arise when lower unemployment is pursued.	4-6
L 1	For an answer that demonstrates some understanding of unemployment and macroeconomic objectives.	1-3

Part (b)

	Knowledge, Application, Understanding and Analysis	Marks
L 3	<i>For an answer <u>using analysis</u> to <u>support the conclusions</u> about the use of exchange rate policy as opposed to other policies to correct unemployment in small, open economies</i>	9-11
L 2	<i>For an answer that gives a <u>descriptive explanation</u> of exchange rate policy and other policies to correct unemployment</i>	6-8
L 1	<i>For an answer that shows some basic but largely <u>unexplained knowledge</u> of exchange rate policy , policies to correct unemployment <u>and/or</u> small, open economies</i>	1-5

	Allow up to 4 additional marks for Evaluation	
E 2	<i>For an evaluative discussion supported by relevant economic analysis that either exchange rate policy or any other policy is justified</i>	3 – 4
E 1	<i>For an unexplained evaluative e.g. a largely unexplained statement that exchange rate policy is justified</i>	1 – 2