

5a) Using the concepts of scarcity and opportunity cost, explain why governments are often concerned with high levels of unemployment. [10]

5b) High youth unemployment rates are increasingly a problem in many parts of the world. Weak economy, too many graduates and the lack of suitable jobs created are often cited as the culprits. Assess the relative importance of the various reasons for youth unemployment in different countries. [15]

Outline

a) Using the concepts of scarcity and opportunity cost, explain why governments are often concerned with high levels of unemployment. [10]

1. Concept of scarcity	<p>Explain the concept - Scarcity refers to the situation where the limited resources available are unable to satisfy the unlimited human wants.</p> <p>Resources are means of production and they are finite in amount at any point in time. Hence, the quantity of output produced will also be limited.</p> <p>Unlimited wants refer to the desire for ever higher levels of consumption. These desires increase over time. As soon as old wants are satisfied, new wants are created.</p> <p>The wants are satisfied through the consumption of goods and services.</p>
	<p>Explain unemployment is situation where resources are not fully utilized leading to wastage of resources and/or that unemployment may cause economic to slow down -</p> <p>With unemployment, the economy's actual output may be significantly less than its potential output.</p> <p>In the event of prolonged unemployment it may cause a person to lose touch of the skills and knowledge he once possessed, causing a lowering of the economy's potential growth.</p> <p>High unemployment has impact on non-material standard of living as well. Unemployment appears to be linked to a greater incidence of crime, violence on streets, drug abuse, alcoholism and vandalism, which in turn affects the investors' confidence in the economy. This may lead to fall in investment in the economy and affects economic growth.</p>
	Insufficient goods & services are produced to satisfy wants
	Hence unemployment worsens the problem of scarcity
2. Concept of opportunity cost	<p>Explain the concept - Opportunity costs measure the cost of making a choice, in terms of the next best alternative foregone.</p>

	With unemployment, more goods & services could have been produced.
	The government loses tax revenues due to the loss in income since the unemployed can no longer pay income tax. They are also more prudent in their spending, so there will be less collection of GST. The fall in tax revenue would mean that the government would have fewer funds available for infrastructural development which would hinder economic growth. Moreover, the government needs to spend on welfare payments sacrificing on other important projects like developing infrastructure or raising quality of education & healthcare.

Note: PPC diagram is not required to obtain L3

L3	Ability to use both concepts in explaining the costs of unemployment well	7-10
L2	Ability to use the 2 concepts in explaining the costs of unemployment Or Only able to use 1 of the concepts in explaining the costs of unemployment well	5-6
L1	Major conceptual errors Brief attempts at explanation of the 2 concepts or costs of unemployment	1-4

5b) High youth unemployment is increasingly a problem in many parts of the world. Weak economy, too many graduates and the lack of suitable jobs created are often cited as the culprits. Assess the relative importance of the various reasons for youth unemployment in different countries. [15]

Unemployment refers to the situation where people in the labour force (of legal working age) who are willing and able to work but are unable to find employment.

Main reasons for unemployment: demand deficient unemployment, structural unemployment and frictional unemployment.

Explaining each cause of youth unemployment	Assessing the importance in different countries
<p>1. Weak economy</p> <p>Demand-deficient unemployment – Cyclical unemployment is related to the business cycle. During the downswing (recession or depression), aggregate demand decreases and firms find they cannot sell all their current output, and stocks pile up. Firms will then adjust to the deficiency of demand by cutting back on production and hire fewer workers, leading to an increase in cyclical unemployment.</p>	<p>This is especially true in the case of countries in Europe like Spain and Greece where the economy is badly affected by the global financial crisis.</p> <p>As firms started to retrench workers, youths would be the ones who get cut first as they usually do not qualify for retrenchment benefits. Even if there are firms which want to hire they will choose workers with more experience over youths given the larger number of applicants available during the weak economic situation.</p>

<p>Illustrate with AD/AS or Y=AE</p>	
<p>2. Too many graduates</p> <p>Frictional unemployment – Frictional unemployment arises because of imperfect information in the labour market as it takes time for workers to be matched with suitable jobs. It is also known as search unemployment. The unending flow of people into and out of the labour force and the process of job creation and job destruction create the need for people to search for jobs and for firms to find suitable employees. Since both employers and employees spend time searching for what they believe to be the best match available, frictional unemployment arises.</p> <p>Frictional unemployment could arise when workers leave declining industry for expanding ones. It could also arise when the recurring stream of students passing out from schools and institutions of higher learning start to look for jobs but have not found them yet. During this lag time, these people would be registered in the labour survey as unemployed.</p> <p>Therefore, the main cause for the problem is imperfect information. Employers are not fully informed about what labour is available; employees are not fully informed about what jobs are available and what they entail.</p>	<p>In Singapore school leavers typically take on average 3 to 6 months to get into a job. Big countries like China, however, suffer more from frictional unemployment. Every year, there are millions of fresh graduates entering the labour market in China, most of whom will vie for the limited job positions in the finance and commerce industries. Employers will take a longer time to interview and select the best candidates for their firms and hence time taken for these graduates to find a job will lengthen. Some taking more than a year to find a suitable job.</p> <p>And with the added inertia amongst youth to land a job quickly due to the ability to depend on their parents, this may be a bigger problem in China.</p>
<p>3. Lack of suitable jobs created</p> <p>Structural unemployment – A reason why job vacancies and unemployment coexist is that unemployed workers often do not have the skills demanded by employers. Structural unemployment arises when changes in technology or international competition change the skills needed to perform jobs or change the location of jobs. People made redundant in one sector of the economy cannot immediately find jobs elsewhere because they either do not have the necessary skills or are unwilling to move to another area/region where prospects are better (occupational and geographical immobility of</p>	<p>Countries which are still developing may still require more blue collar workers but more youths are getting highly educated which does not match the skills requirement of jobs created.</p> <p>In China for example, graduates obtained degrees in Arts and Social Sciences but jobs created are not in these areas. Some graduates took more than a year to land a job.</p>

labour respectively).	
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L3	Excellent ability in explaining the causes of unemployment and assessing the situation in different countries (yellow highlighted portions are not required to obtain L3)	9-11
L2	Ability to link the causes stated to the different types of unemployment and some attempt to apply to different countries	6-8
L1	Listing of causes of unemployment Major errors present	1-5
E2	Substantiated judgement (show knowledge of youth unemployment)	3-4
E1	Unsubstantiated judgement	1-2