

a) Explain the different types of unemployment an economy can face? (10)

Introduction

- Define unemployment - Refers to people who are registered as able, available and willing to work at the going wage rate in a suitable job but who cannot find paid unemployment despite an active search for work.
- Introduce the 3 main types of unemployment – structural, cyclical and frictional unemployment.

Body

i. Structural unemployment

- Structural unemployment refers to the mismatch between the skills possessed by the retrenched workers and those required by new industries. It is part of the natural rate of unemployment and exists even when the economy is at full employment as mentioned at the start of the essay.
- Results mainly from immobility of resources (e.g. geographical and occupational immobility) when the structure of the economy changes or when there are permanent changes in demand and supply conditions.
- Explain occupational and geographical immobility.
- Example: Singapore moved from manufacturing (especially in the areas of chemical, electronics and engineering) in the 1990s to R&D (especially in the areas of environmental & water technology, biomedical sciences and interactive & digital media) in the millennium.

ii. Cyclical unemployment

- Cyclical unemployment: occurs when the economy is at the recessionary phase of the trade cycle. It is caused by a decrease in aggregate demand (from either internal or external problems). Internal → Recession → C & I fall → AD fall → real output fall → demand for FOP fall → demand deficient unemployment.
External → Global downturn → X fall → AD fall → real output fall → demand for FOP fall → demand deficient unemployment.

- Example: Singapore experienced cyclical unemployment during the global financial crisis in 2008 which caused decrease in demand for Singapore's exports. When X falls, demand for labour would fall; bringing about cyclical unemployment
- iii. Frictional unemployment
- Frictional unemployment is associated with normal labour turnover and aggravated imperfect market knowledge (due to ignorance of job opportunities). It is part of the natural rate of unemployment.
 - Example: Job hopping in Singapore especially in the finance and accounting sector due to better remuneration, promotion, a new challenge, an overseas posting or more flexible work arrangements.

Conclusion

Singapore's unemployment level is very much caused by internal and external factors. Structural unemployment is the most significant problem in Singapore as it restructures in the face of globalisation.

Marking scheme

Level	Descriptors	Marks
1	Answer is largely vague in definition. Only few valid points made incidentally.	1-2
	Answer shows some knowledge of unemployment but the focus predominantly on the types of unemployment rather than the causes.	3-4
2	<ul style="list-style-type: none"> • Evidence of ability: <ol style="list-style-type: none"> a. Identify the appropriate types of unemployment (structural, cyclical, frictional) b. Explain the causes to these types of unemployment although <u>underdeveloped</u> explanation • No or weak examples given. 	5-6
3	<ul style="list-style-type: none"> • Evidence of ability: <ol style="list-style-type: none"> a. Identify the appropriate types of unemployment (structural, cyclical, frictional) b. <u>Good</u> explanation of the causes to these types of unemployment • Some good examples were given. 	7-8
	<ul style="list-style-type: none"> • A thorough knowledge of the 3 main types of unemployment. 	9-10

	<ul style="list-style-type: none"> • Demonstrate a good ability to describe and explain in a precise, logical and reasoned manner. • Good examples were given throughout the answer. • Conclusion is stated. 	
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- b) **Discuss the view that structural unemployment is the most significant macroeconomic problem faced by open economies. (15)**

Introduction

- Define open economy
- An open economy is one with no barriers to free market activity which is characterized by the absence of tariffs, taxes, licensing requirements, subsidies, unionization and any other regulations or practices that interfere with the natural functioning of the free market.
- State the macroeconomic problems faced by open economies.

Body

Thesis: Structural unemployment is the most significant macroeconomic problem faced by open economies.

- i. **Effects of structural unemployment in comparison with frictional and cyclical unemployment**
- **Workers might not obtain a job when the economy recovers** as their skills are irrelevant to the new industries or they could even be displaced when the economy is growing due to changes in comparative advantages and globalisation.
 - This could **go on for a longer period of time compared to the other two types of unemployment** which could have detrimental effects on the individual, economy, government and society.
 - Due to prolonged periods of joblessness, **workers become de-skilled** as their skills become increasingly dated in a rapidly changing job market which further reduces their chances of gaining employment in the future. This **adds additional burden to the government** as more unemployment benefits need to be given out.

- Coupled with increased spending by the government in terms of benefit payments and lesser tax revenue, **government would be experiencing a budget deficit.**
- Such prolonged structural unemployment would also cause the **economy to slow down** as peoples' disposable income is reduced -> decrease consumption -> decrease AD -> decrease GPL and RNY. **Unemployment problem** would worsen as less labour is demanded given that it is in derived demand.
- The effects of structural unemployment would be most significant for **open economies** given the **mobility of labour**. Workers who lack the skills needed in the industries are able to move to other economies where their skills are needed hence leading to the problem of '**brain drain**' -> decrease in productive capacity -> decrease in potential growth.
- In addition, prolonged periods of structural unemployment would result in the **lack of confidence amongst investors**. Open economies would be impacted more significantly due to **free flow of capital**. Hence, I decrease -> decrease AD -> decrease GPL and RNY.

ii. **Effects of structural unemployment in comparison with other macroeconomic problems**

- It takes a shorter time to address the other macroeconomic problems (such as slow economic growth, recession, inflation) compared to structural unemployment as it takes time to train and/or re-educate workers and the success depends very much on the capacity of workers to learn and apply their new found skills and knowledge and prove that they could value-add to firms which are using technology in their production processes.
- Given the openness of the economy, prolonged structural unemployment could result in decrease productive capacity -> increase GPL -> decrease price competitiveness of Xs -> decrease in (X-M) -> decrease AD -> decrease GPL and RNY and BOP deficit due to trade and capital deficits.

Anti-thesis: Structural unemployment is not the most significant macroeconomic problem faced by open economies.

i. Structural unemployment might not be the most serious type of unemployment

- For example, during the 2008-2009 sub-prime crisis in USA, there was decrease in consumption expenditure due to decreasing income and decrease in investment expenditure due to declining profits and poor business sentiments. Hence, cyclical unemployment arises.
- It may affect a few industries at first but as business pessimism grows, unemployment will spread from one industry to another. This fall in unemployment is expected to affect all industries in the economy at the same time, leading to mass unemployment. In comparison, structural unemployment usually only affects specific industries thus only specific groups of workers will be affected which is less detrimental than cyclical unemployment.
- Developed small open economies such as Singapore is affected through trade with the large open economies such as USA. On the other hand, emerging open economies in general are affected through trade with the developed economies.

ii. Structural unemployment is not the most significant macroeconomic problem

- Macroeconomic problems such as inflation, deflation, recession and unfavourable BOP might be more significant **as each of them are interlinked with each other and are more widespread in their effects for open economies.**

❖ Slow economic growth

- The more significant macroeconomic problems faced by developing open economies such as Bangladesh would most likely be slow economic growth given widespread poverty which affects consumption levels, lack of foreign direct investments given investors' lack of confidence in the infrastructure and political stability. The effects of slow economic growth are as follows:
 - Decrease in real national income -> reduced output of goods and services -> decrease demand for labour -> increase in unemployment rate -> decrease disposable income and purchasing power -> decrease consumption -> decrease AD and problems are worsened.

- Investors' confidence affected -> decrease investment -> decrease AD and capital outflow.

❖ High rates of inflation

- High rates of inflation is a more significant problem for emerging open economies such as China and India given their large domestic market which increased consumption, undervalued Yuan which increase demand for exports and investments -> demand-pull inflation. The effects of high rates of inflation are as follows:
 - Loss of confidence in currency
 - Decrease in investment
- High rates of inflation causes unfavourable BOP (i.e. deterioration of trade balance and long-term capital outflow).

❖ Unsustainable economic growth

- Emerging open economies such as China faced a more significant macroeconomic problem of unsustainable economic growth due to export-led growth model and rapid industrialisation which caused pollution and waste problems.

❖ Deflation

- Developed open economies such as EU face deflation due to decrease in demand for goods and services by emerging economies such as China and increase in supply of goods due to improvement in technology and falling oil prices.
- With decreasing general price levels, producers will not be incentivised to produce hence output decreases. This leads to a decrease in demand for labour as it is in derived demand hence increasing unemployment. As unemployment increases, disposable income decreases leading to lower purchasing power hence consumption decreases. This leads to decrease in aggregate demand and hence real national income which further worsens the problem of unemployment and growth.

Conclusion

Whether or not structural unemployment is the most significant macroeconomic problem depends on the type of open economy (i.e. developed / developing / emerging, small / large), situations in the economy (e.g. political situation, government objectives, government policies) and preparedness of the government in managing structural unemployment.

Marking scheme

Level	Descriptors	Marks
L3	Well developed and excellent two-sided discussion in the context of the open economy.	9 - 11
L2	Under-developed two-sided discussion with no links to open economy. Developed one-sided answer with some links to the open economy. Under-developed two-sided discussion with some links to the open economy.	6 7 8
L1	For an answer that demonstrates limited knowledge about open economies (i.e. characteristics), structural unemployment and macroeconomic problems. Several misconceptions / errors were present.	1 – 5
E2	Judgment based on analysis. The evaluative comments are well-explained.	3-4
E1	Mainly unexplained judgment.	1-2