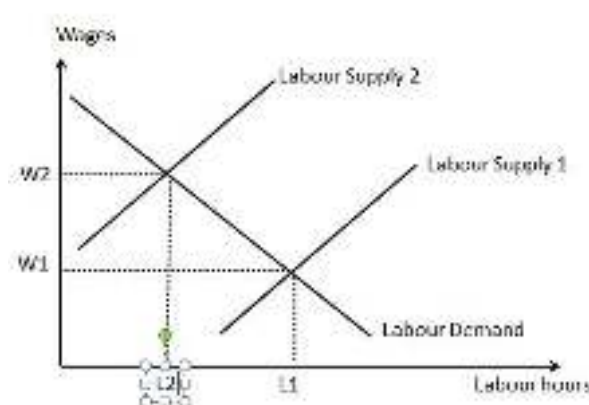
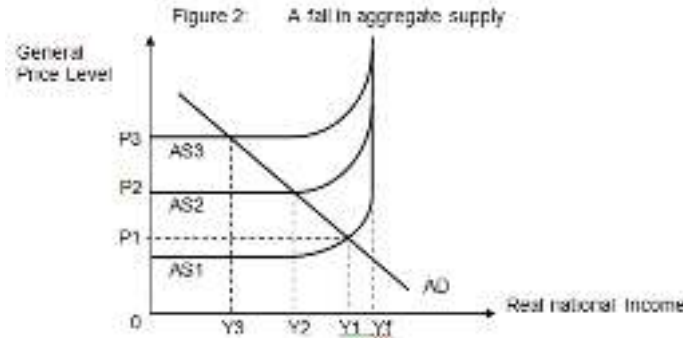


H2 P1 CSQ 2

Suggested Answers

a)	i)	With reference to the data, compare the trends in long-term unemployment rates between UK and Europe.	[2]
		<p>Difference: UK's long term unemployment rate is consistently lower than that of EU.</p> <p>Difference: UK's long-term unemployment rate is falling while that of EU is rising</p> <p><i>1 mark each</i></p>	
	ii)	Account for the differences in trends as observed from above.	[4]
		<p>Reason for higher unemployment in EU: From Extract 4: EU has been experiencing increase in labour force. Assuming labour demand is constant, a rise in labour supply will lead to a higher unemployment rate.</p> <p>OR</p> <p>From Extract 4: EU faces geographical immobility. There are language, cultural differences and qualifications are not transferable across countries</p> <p>Reason for rising unemployment rates in EU: From Extract 4: EU offers more welfare benefits than UK. Reduces incentive for EU unemployed to seek employment.</p>	

b)		<p>Explain, with the aid of diagram(s), the impacts of long-term unemployment in UK on:</p> <p>i) its labour market. ii) its economy.</p>	[6]
		<p>i) Long-term unemployment erodes confidence and skills of labour.</p> <ul style="list-style-type: none"> - Discouraged workers will cease to seek employment actively. - This reduces labour supply and results in an increase in wages from W1 to W2.  <p>The diagram shows a labour market with 'Wages' on the vertical axis and 'Labour hours' on the horizontal axis. A downward-sloping 'Labour Demand' curve is intersected by two upward-sloping labour supply curves: 'Labour Supply 1' and 'Labour Supply 2'. 'Labour Supply 2' is to the left of 'Labour Supply 1'. The initial equilibrium is at the intersection of 'Labour Supply 1' and 'Labour Demand', corresponding to wage W1 and labour hours L1. The new equilibrium, after long-term unemployment, is at the intersection of 'Labour Supply 2' and 'Labour Demand', corresponding to a higher wage W2 and a lower level of labour hours L2. A green dot marks the new equilibrium point.</p> <p>ii) With the increase in wages, there will be an increase in costs of production. This erodes profit margins and incentive to produce. SRAS falls resulting in an increase in general price level from P1 to P2 and a fall in real output from Y1 to Y2.</p>  <p>Figure 2: A fall in aggregate supply</p> <p>The diagram shows 'General Price Level' on the vertical axis and 'Real national Income' on the horizontal axis. A downward-sloping 'AD' curve is intersected by three upward-sloping short-run aggregate supply curves: 'AS1', 'AS2', and 'AS3'. 'AS3' is the leftmost curve, followed by 'AS2', and then 'AS1'. The initial equilibrium is at the intersection of 'AS1' and 'AD', corresponding to price level P1 and output Y1. A fall in aggregate supply shifts the curve to 'AS2' and then 'AS3'. The new equilibrium at 'AS3' corresponds to a higher price level P3 and a lower level of real output Y3. Intermediate points P2 and Y2 are marked on the 'AS2' curve.</p>	
c)		<p>Using case materials, discuss the considerations a government made in their decision to address unemployment.</p>	[8]
		<p>Government has to consider the potential benefits and costs of the policy</p> <p><u>Benefits:</u> <u>Improves fiscal positions in long run</u></p> <p>From Table 2 and 3, fiscal deficits correspond with high unemployment for the European government. With high unemployment, tax revenues collected by governments will fall as tax bases fall. Similarly, transfer payments in the form of unemployment benefits rise as the number of</p>	

	<p>unemployed increase (from Extract 5). Hence, fiscal position tends to worsen to a deficit. Thus, addressing unemployment would reverse the trend of worsening fiscal position.</p> <p><u>Improves standard of living for households</u> Attempts to lower unemployment will generate higher general household income levels within the countries. This will lead to an improvement in material standard of living as the households will be able to afford more units of goods and services. From Extract 5, being employed will allow labour to undergo trainings and accumulation of experiences which enhance non-material standard of living. Furthermore, higher employment rates have a correlation to higher birth rates and better life expectancies. These suggest that with employment, households are able to better afford healthcare services as well, which improves non-material standard of living into the long run.</p> <p><u>Improves productivities for firms</u> From Extract 5, prolonged unemployment erodes skillset and productivity, which would lower production for firms. Lower output will erode profits for firms. Similarly, firms may face the problem of hiring labours with the right skills, and hence resort to offering higher wages to source for these labour. Likewise, this will translate to higher costs and therefore lower profits for firms.</p> <p><u>Improves outlook on economy</u> A higher employment improves outlook on economy. With a high employment rate, households are typically better equipped to consume goods and services. This will allow the firms to better plan expansion to their productions and contribute towards the accelerator effect. With a better outlook, the economy will be able to attract foreign direct investments as well. All of these will lead to increase in C and I and therefore AD and NY. Assuming investment to include capital accumulation, there will be improvement to productive capacity and increases to LRAS. Collectively these will generate sustained growth for the economy.</p> <p><u>Costs:</u> <u>Worsens fiscal position in short run</u> Policies to address unemployment such as trainings and job fairs incur costs and will worsen fiscal position. This is largely undesirable particularly with the fiscal deficits that are plaguing the countries from Table 2. Worsening fiscal positions tend to worsen outlook on economy, especially with the belief that taxes will rise in the near future to correct the deficits.</p> <p><u>Worsens allocation of resources to other areas</u> High unemployment leads to excessive expenditure on transfer payments which represent an opportunity costs as resources are diverted from other areas of concern eg: provision of public goods, merit goods, pension for retirees.</p> <p><u>Worsens productive capacity</u> Prolonged unemployment shrinks labour force as these workers lose their confidence and stop to seek employment actively. This represents fall in productive capacity and restricts growth of the economy.</p> <p><u>Stance:</u></p>	
--	---	--

	<p>Governments have to consider short and long run implications. Generally, policy will be implemented so long as there is net benefit to society in the long run. In this case, the net benefits of addressing unemployment outweighs the costs of implementing policies for lowering unemployment. Alternatively, government can consider adopting market-oriented policies to address unemployment as it incurs less expenditure. Although, market-oriented policies may not ascertain as effectiveness an outcome as interventionist policies.</p> <p>Mark Scheme</p> <table> <tr> <th>Level of response</th><th>Descriptor</th><th>Marks</th></tr> <tr> <td>L2</td><td>Balanced analysis on costs and benefits of addressing unemployment, with considerations to different stakeholders of the economy/time period.</td><td>4-6</td></tr> <tr> <td>L1</td><td>One-sided analysis, with under-developed explanations.</td><td>1-3</td></tr> <tr> <td>Evaluation</td><td></td><td></td></tr> <tr> <td>E</td><td>Rationalised overall stance and judgment on government's priorities.</td><td>1-2</td></tr> </table>	Level of response	Descriptor	Marks	L2	Balanced analysis on costs and benefits of addressing unemployment, with considerations to different stakeholders of the economy/time period.	4-6	L1	One-sided analysis, with under-developed explanations.	1-3	Evaluation			E	Rationalised overall stance and judgment on government's priorities.	1-2	
Level of response	Descriptor	Marks															
L2	Balanced analysis on costs and benefits of addressing unemployment, with considerations to different stakeholders of the economy/time period.	4-6															
L1	One-sided analysis, with under-developed explanations.	1-3															
Evaluation																	
E	Rationalised overall stance and judgment on government's priorities.	1-2															
d)	Discuss why EU has decided to implement a different policy from that of the UK and French government, and consider which approach is more likely to be effective.	[10]															
	<p>1. Explain why EU has decided to implement protectionist measures to <u>resolve unemployment</u> (i.e explain how the policies work)</p> <p>From Extract 6, EU is leaning towards protectionist measures like anti-dumping and anti-subsidy duties on imported goods. These duties and tariffs will increase the price of imported goods and cause domestically produced goods (assume that they are close substitutes to imports) to be relatively cheaper. Hence, domestic consumers will switch their import expenditure over to that of domestic consumption. Hence, import expenditure may fall and domestic consumption may increase. This will serve to stimulate AD (through an increase in C and increase in (X-M)) and through multiplier process, generates increases in real output. With the increase in AD, there will be a decline in demand deficient unemployment.</p> <p>2. Explain why the UK and French government has decided to implement supply side policies (interventionist and market oriented policies respectively) to <u>resolve unemployment</u>.</p> <p><u>UK</u></p> <p>The UK government have implemented supply-side policies like increasing expenditure on training programmes and apprenticeship to equip labour force with the necessary skills to remain employable and to improve labour mobility. This would aid in reducing structural unemployment (unemployment due to the mismatch of skills) as workers are now better equipped with relevant skills to move from one industry to another.</p> <p><u>France</u></p>																

	<p>The French government are reviewing the wage policies to consider the abolishment of the 35 hour work week and reforming the over time pay scheme (renegotiate lower over time pay for staff). This market oriented policy is implemented in a bid to lower the labour cost of firms as labour costs and higher productivity allow “handicapped French companies to compete better in global markets” since goods exported and produced locally in France can be sold at a more competitive price and this could increase net exports and potentially reduce demand deficient unemployment. Also, with lower labour costs, this could also encourage the inflow of FDI to set up their operations in France and this will provide more job opportunities for the locals and reduces unemployment.</p> <p>3. Consider which approach is more effective a) Depends on the root cause of the unemployment While it appears both measures will reduce unemployment, it is important to consider the root cause and likely reactions to the policies. For EU, the root cause of unemployment appears to be a mixture of increasing labour force, overly generous welfare packages that reduced the incentive for the unemployed to seek jobs and external factors (emergence of low cost competitors due to globalisation). Although protectionism serves to stimulate demand for domestic labour, it is crucial to note that it is a double-edge sword that tends to draw retaliation from trade partners. This may results in trade partners imposing higher tariffs on EU causing a fall in AD through net export revenue instead. The fall in AD will lead to greater demand-deficient unemployment.</p> <p>For the UK, the unemployment rate is generally lower than that of EU and falling. This suggests that the apprenticeship has proven to be effective in lowering unemployment. However, it is important to note that the funding of these programmes could have contributed to the fiscal deficits UK is suffering from. France is suffering from a higher and rising unemployment and long-term unemployment. This is detrimental to the French economy alongside with its fiscal deficit. The move to review its 35 hour work week may cause unhappiness amongst its labour, but prove to delight the firms, as longer working hours generally translate to higher output and therefore revenues.</p> <p>2. Dependent on the time period and whether there is a need for more immediate solutions which depends on the urgency of the problem Hence, it appears that the EU should instead consider incorporating the supply-side policies adopted by France and UK as it seems to be a less detrimental measure than protectionism. However, as supply-side policies generally require long gestation time period, the protectionism measure may be adopted only to address the high unemployment in the short run especially if immediate solutions are necessary to solve perennial high unemployment situation.</p> <p>Lastly, it is important to note that EU is a body that governs the well-beings of members of the union. The protectionist stance it is considering is meant to complement the policies adopted by the respective European governments so that there will be a more effective outcome in resolving unemployment within the EU. Furthermore, protectionism has often been used a short run tool to buy time or to mitigate short run costs while supply side policies take effect.</p>	
--	---	--

Mark Scheme			
	Level of response	Descriptor	Marks
	L2	Balanced analysis on costs and benefits of addressing unemployment, with considerations the different countries/regions' unemployment problems.	5-7
	L1	One-sided analysis, with under-developed explanation.	1-4
	Evaluation		
	E	<p>Unjustified stand on the preferred choice of policy.(1 mark)</p> <p>Rationalised overall stance and judgment on government's priorities and criteria for selecting the most appropriate policy to reduce unemployment.</p> <p>Consideration of a combination of policies to tackle the multiple causes of unemployment.</p>	1-3