

Section IV — Answer either Question 27 or Question 28 | of 2

Write the question number in the space provided

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Sample 1 Question 28

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Question Number

Unemployment refers to the situation where people who are actively seeking work, aged 15 years and over, are unable to find jobs.

The unemployment rate is calculated by measuring the number of unemployed as a percentage of the total labour force - those aged 15 years or over who are either employed or actively seeking work. There are many causes and effects of unemployment in which the government needs to address through its policy making.



Frictional unemployment is due to the situation where one is switching between jobs. It refers to the period ~~of time~~ between the conclusion of one job and the movement into another. This may be caused by the individual seeking a new job and is thus frictionally unemployed.

The non-accelerating inflation rate of unemployment refers to the level of unemployment which can be sustained without inflationary pressures. It is

the level at which there is no cyclical unemployment, and the economy is operating at its full capacity. It is said to be at the level of 5%.

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Cyclical unemployment: Unemployment is also caused by changes in the business cycle, referred to as cyclical unemployment. It occurs due to fluctuations of booms and busts which consequently either promotes job creation or higher levels of unemployment. During a recession, ~~less~~ consumers aggregate demand decreases. Since demand for labour is derived demand, then a recession also sees demand for labour decrease \rightarrow cyclical unemployment.

The change in patterns and structure of industries also leads to unemployment i.e. structural unemployment. Due to constantly changing conditions, most recently the mining boom for example, labour has been shifted from inefficient manufacturing industry to efficient competing mining industries. This ~~creates~~ employment in mining industries however negatively affects those in manufacturing industries who face a mismatch of skills, thus making them structurally unemployed. This most commonly leads to long-term unemployment ^(2 months) as it takes time for the newly unskilled workers to gain the skills needed to be employed.

Seasonal changes, and those jobs that heavily rely on the nature of seasons can also cause unemployment. Seasonal unemployment is due to the changing of seasons that is not favourable for an individual's employment.

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For example, ski instructors only operate during cooler seasons such as winter. More recently, the Brisbane floods in 2011 increased the unemployment rate since ~~the~~ it ruined many ~~the~~ areas of land that was used for agricultural purposes, thus making those producers seasonal unemployed.

Unemployment is also caused by those who employers deem to be unemployable due to either their mental or physical state. ~~This is known~~ ^{or the fact that} they are not adequately trained or educated for the job. This is known as hard-core unemployment.

Unemployment is also caused by discouraged job seekers who no longer actively seek work. These people are unemployed however are not reflected in the official unemployment statistics as they do not actively seek work.

Levels of unemployment have many adverse

effects on the Australian economy, providing both economic and social benefits and costs.

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Increases in unemployment → more individuals without income. As individual's income decreases, then so too does their marginal propensity to consume as they have less disposable income. This consequently reduces the level of aggregate demand in the economy, thus dampening economic growth.

Reduced or no income can also affect the level of poverty within the Australian economy. With no income, as a result from being unemployed, people are made homeless. This deteriorates their standards of living and quality of life. Thus

No income also means that one is faced with lower opportunities, for example to health and education. Without an education, one is unable to easily return into the workforce, affecting the Aus economy with a lower participation rate.

Being homeless, as a result of unemployment,

also increases the chances of one developing a mental illness with no job, and no chance of receiving a job in the short-term. one's self esteem will fall and thus may lead to extreme measures or suicide.

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Rising unemployment levels further creates increased a higher gini coefficient and income inequality, contributing to rising social divisions. It creates social classes in the economy which may then have the spill over effect of rising materialism of those who enjoy a higher income.

With high unemployment levels, the nation is not fully utilising its resources and thus faces opportunity costs. With unemployment individuals are seeking work, but unable to find it, thus the economy is underusing the full capacity of its resources.

Since demand for labour is derived demand for goods and resources, an increase in aggregate demand creates an increase in employment.

The decreased cash rate in August 2013 from 2.75% to 2.5% boosted consumer confidence and encouraged spending. This had the short-term

effect on the unemployment rate as it reduced from 5.8% to 5.6% between August - September 2013, highlighting the effects aggregate demand has on employment.

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High levels of unemployment further affects the Australian economy in the way that governments must implement policies to improve ~~employment~~. However, in an attempt to reduce unemployment, the government faces a conflict with the objective of inflation, as demonstrated in the Phillips curve.

Fig 1.

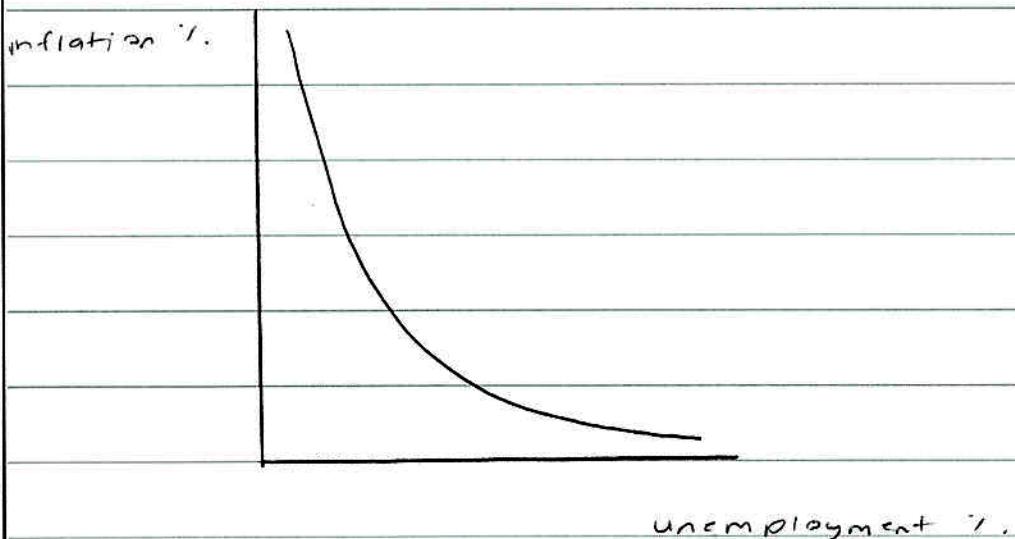


Fig 1 Phillips curve.

With reduced levels of unemployment, individuals receive income, income of which they are able to spend. Spending this income reflects increases in the demand for goods and services.

thus pushing up prices and creating inflationary pressures. Consequently, in an attempt to reduce unemployment the government faces the conflict of higher levels of inflation.

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Nonetheless, unemployment still requires government policies to reduce its effects. For example, unemployment rose to ~~11~~. 7.5% during the GFC. However, with ~~the government's~~ the government implemented a Jobs Training compact which improved and developed the skills of those unemployed through development and training programs. This consequently reduced the unemployment level to 5.5% by 2010.

Unemployment further affects the economy as it demands the needs for employment agencies.

Job Services Australia was established to assist those unemployed to find ~~to~~ employment more easily.

* [This paragraph is in the next booklet] *

Thus, it is evident that unemployment is caused by many factors ~~and~~ which have adverse economic and social effects on the Aus economy. Government policies are implemented however, to improve employment levels.

If you require more space to answer the Section IV question, you may ask for an extra writing booklet.

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If you have used an extra writing booklet, tick here.

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Unemployment further affects gov spending as the gov must increase transfer payments to those unemployed. Under the progressive taxation system, individuals earning a higher income, pay a higher proportion of income tax. This is then redistributed to the unemployed through transfer payments. Therefore, increasing unemployment leads to individuals demanding more transfer payments to compensate for their lack of income to survive daily.