

Document: Unemployment**What is unemployment?**

Unemployment is an economic indicator. (...)

High levels of unemployment are usually typical of a struggling economy, where labour supply is **outstripping** demand from employers. When an economy has high unemployment, it is not using its economic resources in the best possible way. Unemployment also carries significant social costs. (...)

The causes of unemployment are **manifold**. Economists distinguish a number of types of unemployment, (...)

Controversies

Throughout history, policy-makers have from time to time taken the view that the macroeconomic benefits of high unemployment outweigh its economic and social costs. This was the case during the early 1980s. Most of the time, however, governments are unwilling to permit high unemployment, due to the demonstrated social effects, the economic underperformance it reflects and the public cost in terms of benefit payments it demands.

Nevertheless, as an aggregate figure, the "headline" unemployment figure and rate can only tell part of the story. Structural differences between the regions of the UK have often meant that a nationwide figure masks localised problems. For years, unemployment in the north of England, Scotland and Wales have been considerably higher than in the prosperous South East and London. Even within regions, there are local pockets of high unemployment. Many towns remain dominated by a small number of large employers: when a locally-significant business closes, such as the mines during the 1980s or Rover's Longbridge plant in Birmingham more recently, the effect can be devastating.

Headline figures can also disguise other complexities, such as the prevalence of unemployment amongst ethnic minorities, women, disabled people, young people, and people who have been unemployed for long periods of time.

At present, there are two principal measures of unemployment used by the Government: the International Labour Organisation (ILO) measure (the UK's version being known as the Labour Force Survey or LFS unemployment); and the Claimant Count. (...)

This is only the latest example of the problem of measuring unemployment. Most governments are keen to minimise the appearance of unemployment, not only for political reasons but also for the economic signals it sends out. Over the last 25 years, numerous revisions to the official definition of "unemployment" have been made, which have almost universally revised it downwards. Labour frequently accused the Conservatives during the 1980s of moving unemployed people on to sickness benefits - classifying them as economically inactive rather than unemployed - as a strategy for cutting the unemployment figure. (...)

Quote

"And while more people are in work, they are still getting poorer in real terms as wages grow at less than half the rate of inflation. Jobs growth needs to be accompanied by stronger wage growth if consumer spending is to help drive our economic recovery."

TUC General Secretary Brendan Barber, responding to unemployment figures published by the ONS – July 2012.
www.politics.co.uk/reference/unemployment

Help box

outstripping: outperforming

manifold: many

Two main parties in the UK : Conservative and Unionist Party, centre-right and Labour Party, centre-left.

TUC: Trade Union congress in the *UK*, representing the vast majority of organized workers.

I. Knowledge and understanding. (13 marks)

1. What do "wages in real terms" mean? (1 mark)
2. Define and give one example for each type of unemployment using your knowledge. (4 marks)
3. What does the underlined sentence mean? Pick out examples illustrating it. (3 marks)
4. Which of the two main measures of unemployment used by the British government is close to the ILO one. Justify your answer (2 marks)
5. Using the example of the text, show how statistics may understate the measurement of unemployment. (1 mark)
6. Why are people still getting poorer according to the TUC general secretary? (2 marks)

II. Evaluation of economic arguments, making informed judgements. (7 marks)

As the TUC general secretary, show that a stronger wage growth would be able to drive an economic recovery. Use relevant arguments from the economics analysis.

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As an entrepreneurship, show that a stronger wage growth would not be able to drive an economic recovery. Use relevant arguments from the economics analysis.

I. Knowledge and understanding (13 marks)

1. What do "wages in real terms" mean? (1 mark)

Wages adjusted for inflation

2. Define and give one example for each cause of unemployment. (4 marks)

- cyclical unemployment is brought about by the vagaries of the business cycle, e.g. ;
- structural unemployment is brought about by changes in the economy or the labour market, when the jobs available do not fit the workforce's skills, e.g.;
- frictional unemployment is the phenomenon of people being "between jobs";
- and seasonal unemployment is linked to certain types of seasonal jobs, such as farm work and construction, e.g.

3. What does the underlined sentence mean? Pick out examples illustrating it. (3 marks)

As they are global indicators unemployment figures and rates hide differences. For instance, they cannot show disparities according to the regions, the gender, the age, the ethnic background ...

Some regions in the UK are more affected / hit by unemployment than others: e.g. the unemployment rate is lower in the South of England than in the North (Manchester)...

As a result, global unemployment figures must be used carefully because they are unable to reflect some specific features of unemployment.

4. Which of the two main measures of unemployment used by the British government is close to the ILO one. Justify your answer (2 marks)

In the UK, two main measures of unemployment exist: the Labour force survey 's measure and the Claimant count one. The first one is close to the ILO measure because of the same criteria used: out of work, actively seeking work, been looking for work in the past four weeks, be able to start work within two weeks.

5. Using the example of the text, how statistics may understate the measurement of unemployment. (1 mark)

It can be argued that the CC understates unemployment, as some people may be out of work but do not get benefits for the following reasons:

In the text:

- Rules to claim benefits can change; e.g. in the 80s unemployed people moved to sickness benefits from unemployment allowances, hence they became economically inactive reducing the unemployment figures.

6. Why are people still getting poorer according to the TUC general secretary? (2 marks)

Even if people are in work they are still remaining poorer due to the loss of their purchasing power. Indeed, real wages, meaning wages adjusted for inflation, have decreased because inflation has risen at a faster rate than nominal wages.

II. Evaluation of economic arguments, making informed judgements (7 marks)

As the TUC general secretary, show that a stronger wage growth would be able to drive an economic recovery. Use relevant arguments from the economics analysis.

A higher wage rate increases people's purchasing power if it means a raise of wage in real terms, i.e. inflation goes up slower than wages. According to a Keynesian analysis / scheme, a stronger wage enables households to buy more goods and services. In response to an increase of demand, firms have to produce more. Hence, they will demand more workers who are looking for a job. Finally, a higher wage stimulates consumption and production both of which might reduce the number of jobless and thus sustain economic growth.

As an entrepreneurship, show that a stronger wage growth would not be able to drive an economic recovery. Use relevant arguments from the economics analysis.

A higher wage rate could affect the economic growth badly. According to a classical analysis, a higher wage increases costs of production of firms harming their competitiveness.

In addition, any wages greater than the equilibrium wage involve an excess supply of labour, i.e. unemployment. Likewise, a wage rise reflecting a rigidity in the labour market, such as the Trade unions power claiming higher salaries, prevents the labour market to reach full employment. Finally, a higher wage reduces the market efficiency which is considered as the best way / means to achieve an economic recovery.

I. Knowledge and understanding (14 marks)

1. What do "wages in real terms" mean? (1 mark)
2. Explain and give one example for each cause of unemployment. (4 marks)
 - cyclical unemployment is brought about by the of the business cycle, e.g. ;
 - structural unemployment is brought about by changes in the economy or the labour market, when the jobs available do not the workforce's skills, e.g.;
 - frictional unemployment is the phenomenon of people being "between jobs"; and seasonal unemployment is linked to certain types of seasonal jobs, such as farm work and construction, e.g.
3. What does the underlined sentence mean? Pick out examples illustrating it. (3 marks)

As they are global indicators unemployment figures and rates hide.....

For instance, they cannot show disparities according to the regions, the, the age, the ethnic background ...

Some regions in the UK are more affected / hit by unemployment than others: e.g. the unemployment rate is in the South of England than in the North (Manchester)...

As a result, global unemployment figures must be used because they are unable to reflect some specific features of unemployment.
4. Which of the two main measures of unemployment used by the British government is close to the ILO one. Justify your answer (2 marks)

In the UK, two main measures of unemployment exist: the Labour force survey 's measure and the Claimant count one. The one is close to the ILO measure because of the same used: out of work, actively seeking work, been looking for work in the past four weeks, be able to start work within two weeks.
5. Using the example of the text, show how statistics may understate the measurement of unemployment. (1 mark)

It can be argued that the CC understates unemployment, as some people may be out of work but do not get benefits for the following reasons:

In the text:

 - Rules to claim benefits can change; e.g. in the 80s unemployed people moved to benefits fromallowances, hence they became economically inactive reducing the unemployment figures.
6. From your knowledge explain the change of the measure in the Claimant count from 2013. (1 mark)

The alternative claimant count provides a larger measure of unemployment because it includes people getting Universal Credit who search for Work conditionality.
7. Why are people still getting poorer according to the TUC general secretary? (2 marks)

Even if people are in work they are still remaining poorer due to the loss of their power. Indeed, real wages, meaning wagesfor inflation, have decreased because inflation has risen at a rate than nominal wages.

II. Evaluation of economic arguments, making informed judgements (6 marks)

As the TUC general secretary, do you reckon that a stronger wage growth would be able to drive an economic recovery? Use the Classical and Keynesian arguments.

On the one hand, a higher wage rate increases people's purchasing power if it means a raise of wage in terms, i.e. inflation goes up than wages. According to a Keynesian analysis / scheme, a higher wage enables households to buy more goods and services. In response to an increase of demand, firms have to more. Hence they will demand more who are looking for a job. Finally, a higher wage stimulates consumption and production both of which might reduce the number of and thus sustain economic

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