Unemployment

Multiple Choice

1	B	**6**	D	**11**	D	**16**	C
2	A	**7**	C	**12**	C	**17**	B
3	A	**8**	D	**13**	D	**18**	B
4	B	**9**	A	**14**	C	**19**	D
5	B	**10**	C	**15**	D	**20**	C

Short Answers

Question 1

(a) Unemployment rates are higher among youth aged 15-19 years who typically have lower skills and experience than older members of the workforce. Unemployment is also higher among recent immigrants to Australia from non-English speaking backgrounds. These migrants are faced with a language barrier to employment and their professional qualifications may not be recognised by Australian businesses.

(b) One social cost of unemployment is increase inequality. People who rely on unemployment benefits for income will earn less than those who are employed, contributing to inequality. A second social cost is crime. People who are unemployed can become marginalised and may turn to crime to meet their needs. A third social cost of unemployment is mental illness. People who become socially isolated can develop depression and other mental health problems.

(c) The unemployment rate is measured as:
Unemployment rate = Unemployed/Labour Force x 100

The number of persons unemployed includes those individuals fifteen years and above who are out of work but are actively seeking work. The total labour force includes those individuals fifteen years and above who are either working or actively seeking work. There are a number of problems with the official measure of unemployment. One problem is that to be classified as 'employed' you need only engage in one hour of paid work a week. This means that the unemployment rate does not reflect the large number of workers who may be in insecure, casual jobs but who are counted as being employed just as much as full-time workers in secure jobs. The unemployment rate also does not include discouraged job seekers who, whilst wanting to find work, may have stopped actively seeking employment due to the difficulty in securing suitable employment. The unemployment rate also excludes individuals who have a disability and are not participating in the workforce because of a lack of training or support services to assist them to work.

Question 2

(a) Labour force participation rate = Labour Force/Working Age Population x100/1

First calculate the number of people in work. This is given by calculating:
Population in employment = (Population aged 15+) minus (Population aged 15+ without employment)
Population in employment = 17 – 4 = 13 million

Next, calculate the labour force:
Labour force = (Persons 15+ in work) plus (Persons 15+ actively seeking work)
Labour force = 13 + 1 = 14 million
Labour force participation rate = Labour force/Working Age Population x 100/1
Labour force participation rate = 14/17 x 100/1 = 82.4 per cent

(b) Unemployment rate = Unemployed/Labour Force x100
Unemployment rate = 1/14 = 7.1 per cent

(c) Hard core unemployment, where a person is unable to work due to personal factors such as mental health problems, is not included in official unemployment statistics.

(d) From part (a) the participation rate in year 1 is 82.4 per cent.
In year 2 the participation rate is calculated by:
Population in employment = 18-5 = 13 million
Labour force = 13 + 2 = 15 million
Labour force participation rate = 15/18 x 100/1 = 83.3 per cent
The participation rate has increased by 0.9 percentage point between year 1 and year 2.

(e) Hidden unemployment refers to those people who are out of work and are seeking work, but do not fit the official definition of unemployment and are therefore not reflected in the unemployment statistics. This includes discouraged job seekers and people who have only recently been laid off and are living off their redundancy pay. A higher level of hidden unemployment is generally associated with a lower labour force participation rate as individuals stop actively seeking employment, no longer qualifying as part of the labour force, and join the ranks of the hidden unemployed.

(f) In recent years, successive Australian governments have identified the need to increase the labour force participation rate in response to the demographic challenges of an ageing population. Forecasts from the Australian Treasury indicate that the ageing of the population will result in a fall in workforce participation, creating increased strains on government budgets. The highest priority of government initiatives to increase the participation rate is to help women who are raising children to stay in the workforce or re-enter the workforce, through a range of measures such as the introduction of a national paid maternity leave scheme and increases in the child care rebate. Changes to superannuation and tax policies for older Australians are intended to improve incentives to stay in the workforce. A range of training programs to target people on the margins of the workforce aim to lift workforce skills, which are a major influence on individuals staying in the workforce. Tighter eligibility requirements for unemployment benefits and the disability support payment, especially for single parents, are intended to reduce incentives to stay out of the workforce. The government is also moving to establish a National Disability Insurance Scheme (NDIS) which will improve access to employment services (among other services) for people with disabilities and make it easier for them to participate in employment.

Question 3

(a) Unemployment represents an underutilisation of labour resources in an economy. The opportunity cost of unemployment is a loss in potential production from those labour resources, contributing to a lower rate of economic growth.

(b) Underemployment refers to people who are in employment but are working less than 35 hours per week and would like to be working longer hours. Underemployment has become an important feature of the labour market in recent decades because of the rise of casual and part-time jobs. The proportion of underemployed Australians (around 7 per cent) is higher than the proportion of unemployed people.

(c) The overall effect of higher economic growth is lower unemployment. As businesses increase production of goods and services, firms will increase their demand for labour, lifting employment and reducing the level of cyclical unemployment. However in the shorter term, an increase in economic growth will usually increase the labour force participation rate, as formerly discouraged job seekers return to the job market to seek work because they believe there are improved opportunities for employment. The unemployment rate may therefore increase in the shorter term, if the increased number of job seekers is greater than the increase in job vacancies. In addition, firms that are experiencing increased business activity usually delay hiring new staff until they are certain that the increased business activity will be sustained. It is generally assumed by economists that within six months, increased economic growth will lead to a reduction in unemployment.

(d) A range of policy options are available to reduce structural unemployment, which involves a mismatch of skills of job seekers with the skills demanded by employers. One option is active labour market programs that assist in training or retraining unemployed workers to help them move into job vacancies. The government may provide assistance towards unemployed workers to help them locate suitable training and jobs, or provide subsidies to employers so they will hire more workers. For example, in 2009 in response to the threat of a severe recession, the Rudd Government established a Jobs and Training Compact - a $1.5 billion fund established by the Council of Australian Governments (COAG) targeting youth unemployment and retrenched people in specific geographical regions with higher levels of unemployment. Another option is retraining programs, which help structurally unemployed people to obtain new job-related skills, so they can find employment in areas of the economy where jobs are available such as faster growth industries or regions. For example, the Skills for Sustainable Growth program introduced in the 2010-11 Federal Budget includes spending measures to increase the number of training places and apprenticeships in order to address structural mismatches and relieve skills shortages.

Class Activity

- Hard-core unemployment
- Cyclical unemployment
- Structural unemployment
- Seasonal unemployment
- Hidden unemployment
- Hidden unemployment
- Frictional unemployment
- Underemployment
- Hard-core unemployment
- Long term unemployment/structural unemployment
- Structural unemployment
- Cyclical unemployment

Skills Revision

Identify the size of the Working Age Population: **120 million**	Identify the size of the Working Age Population: **300 million**
Calculate the size of the labour force: **110 million**	Calculate the size of the labour force: **290 million**
Calculate the labour force participation rate: **92%**	Calculate the labour force participation rate: **97%**
Calculate the unemployment rate: **27%**	Calculate the unemployment rate: **17%**
Identify the size of the Working Age Population: **250 million**	Identify the size of the Working Age Population: **900 million**
Calculate the size of the labour force: **200 million**	Calculate the size of the labour force: **810 million**
Calculate the labour force participation rate: **80%**	Calculate the labour force participation rate: **90%**
Calculate the unemployment rate: **15%**	Calculate the unemployment rate: **7%**