

Economics

Section II (continued)

Marks

Question 22 (10 marks)

The table shows labour force and population information for a nation.

<i>Labour force data</i>	<i>Number of persons (million)</i>
Employed persons	9
Unemployed persons	1
Population of working age	16
Total population	20

- (a) Calculate the labour force unemployment rate for this nation.

1

$$\text{Unemployment} = \frac{\text{unemployed}}{\text{total workforce}} = \frac{1}{9} \times 100 = 11.1\%$$

- (b) Calculate the labour force participation rate for this nation.

1

$$\text{participation rate} = \frac{\text{Labour force}}{\text{working age pop}} \times 100 = \frac{10}{16} = 62.5\%$$

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Question 22 (continued)

- (c) Explain ONE economic and ONE social cost created by unemployment.

4

* An economic cost of unemployment is the cost of welfare for those people. Unemployment means that more fiscal resources must be put into supporting these people. This cost tax payers as ~~they~~ these taxes are used to support these people, and takes money away from other areas.

* A social cost is the unequal distribution of income and wealth created by unemployment. Those people who are unemployed receive in some cases a fraction of what working people do. This creates inequality as the gap between rich and poor grow.

- (d) Explain how TWO economic policies could be used by the Australian Government to reduce the level of unemployment.

4

* Expansionary Monetary Policy is effective in reducing unemployment. By lowering interest rates consumers are encourage to borrow money and spend. This stimulates the economy and as business begin to grow they employ more people. And with strong economic growth this will continue to occur.

* Australia has a natural unemployment rate of around 6%, this is considered to be structural unemployment. In order to reduce this the government needs to continue its policy of mixed economic reform. This will create short term job losses but in the long run lead to increased international competitiveness. This will mean Australian producers can access new markets, and employ more people, eliminating some of the structural unemployment.

End of Question 22