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There are many causes to unemployment, which are split into categories.

Frictional unemployment is transitional unemployment due to people moving between jobs such as workers entering the labour market, such as university graduates. It may take time to find an appropriate job. Many are only unemployed for a short time while looking for work.

Structural unemployment occurs when people are made unemployed because of capital-labour substitution or when there is a long run decline in demand in their particular industry. Structural unemployment exists when there is a mismatch between the skills and the requirements for the new job opportunities. Many of the structural unemployed came from the manufacturing industry such as coal and steel. These workers find it hard to get employment without getting retrained, as their skills are unlikely to be required in a declining industry.

Seasonal unemployment happens because certain industries see seasonal changes in demand and employment. Such examples include leisure and catering, retailing, tourism, agriculture and construction.

Cyclical unemployment is involuntary unemployment due to a lack of aggregate demand. This type of unemployment is associated with the transition of the economy through the business cycle. When there is an economic recession, we expect to see a rising level of unemployment because of plant closures and worker layoffs. This is caused by a fall in demand leading to a contraction of output from many industries.

Classical unemployment is thought to be the result of real wages being above the market clearing level leading to an excess supply of labour. Some economists believe that the introduction of a national minimum wage may create some classical unemployment in industries. The diagram below illustrates the effect of the national minimum wage.

Before the national minimum wage, demand was for 75 workers. After the introduction of the minimum wage rate, supply is 100 but the demand is only 50 leading to excess supply and unemployment increases. The supply of labour increased because more workers make themselves available for higher paid employment.

Technological unemployment is when unemployment is caused by technological progress. Machines replace the once labour intensive industries, as they are more efficient.

Voluntary unemployment is workers who chose not to work at the going wage rate.