

- a)
b) Define what is meant by the term unemployment. (8)

Unemployment is when people who are registered as able, available and willing to work at the going wage rate in a suitable job but cannot find paid employment despite actively seeking work. Unemployment falls when more people leave the jobless register, when they find work or leave the labour market, than sign on each month.

Unemployment is generally measured in two separate methods. The first one is the claimant count. The claimant count measures of unemployment counts only those people who are eligible to claim the Job Seeker's Allowance. The Job Seeker's Allowance was introduced in October 1996 replacing unemployment benefit. Claimants who satisfy the criteria receive the Job Seeker's Allowance for six months before moving onto special employment measures.

In April 1998, the government published an alternative measure of unemployment based on the Labour Force Survey. This covers those who have looked for work in the past month and are able to start work in the next two weeks.

- b) Explain the causes of unemployment. (16)

- c) What are the Economic implications of unemployment on an economy? (16)

Unemployment is politically, socially and economically undesirable. Unemployment is a waste of scarce resources leading to a loss in potential output of an economy. Unemployment means that we are operating within our Production Possibility Frontier. Redundancies waste valuable resources in training and education, as people's skills are no longer needed in the economy. High unemployment also affects government finances. The government has to pay out more money through job seekers allowance and take in less money taxes as less people working. As unemployment increases less people have a relatively high real income so consumer spending will decrease. This decrease in consumer spending, fall in demand will then cause the demand for labour to fall. This is because labour is a derived demand.

Long-term unemployment has an undesirable effect on the economy. Individuals who lose their job become less self-confident and have less self-respect and employers lose interest in them. Employers do not consider long term unemployed as probable candidates for vacancies

as they will have forgotten some of their skills. It is therefore possible for an area to have a large number of job vacancies co-existing with high levels of unemployment, if many of unemployed have been out of work for a long time.

Rising unemployment is linked to economic and social deprivation there is some relationship with crime and social dislocation e.g. increased divorce rates, worsening health coupled with lower life expectancy. Areas of high unemployment see falling real income values and the worsening in inequalities of income and wealth.

The Production Possibility Curve (PPC) shown below is a diagrammatical representation of an economy. Points A and B are on the curve which shows that all resources available are being used. Point C is used to represent unemployment as not all the resources are being used.