Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY QUESTIONS

EMPLOYMENT AND UNEMPLOYMENT

PAST QUESTIONS

1. (a) Distinguish between structural and frictional unemployment. Consider which would be likely to have the greater negative effect on an economy. [12]

(b) Assess the view that supply-side policies are the most effective way to solve the problem of structural unemployment. [13]

2. (a) A newspaper reported that 'unemployment had risen for the third consecutive month.' What might be the cause of a rise in unemployment? [12]

(b) Discuss whether achieving a fall in the level of unemployment should be the main macroeconomic aim of a government. [13]

3. In 2006 it was reported that a country's unemployment rate had remained steady and that its central bank, through its interest rate policy, had prevented an increase in inflation despite a sharp rise in oil prices.

Explain what might cause unemployment. [12]

4. Assess the extent to which monetary policy can be used effectively to solve the problem of unemployment. [20]

MARK SCHEME

1. (a) Structural unemployment arises from changes in the pattern of demand in an economy and is usually focused upon specific industries or geographical areas. It can also be caused by the introduction of new technology acting as a substitute for labour. Frictional (or search) unemployment arises due to imperfect information in the labour market. Workers are unemployed primarily due to the time taken to find a new job. Both types have a negative impact on an economy but it is generally assumed that structural unemployment will have a long-term impact and impose higher costs on society compared with frictional unemployment which normally lasts a relatively short time. Hence, it may be concluded that structural unemployment is likely to cause the greater negative impact.

L4 (9–12): for a clear explanation of both types of unemployment and their main differences. A conclusion as to which type has the greater negative effect, supported by an appropriate rationale

L3 (7–8): for a clear explanation of the differences between both types of unemployment and a conclusion which is stated rather than supported by an appropriate rationale

L2 (5–6): for a clear distinction between both types of unemployment but no comment on the effect on the economy

L1 (1–4): for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant

(b) Supply side polices are government policies that attempt to alter the level of aggregate supply directly rather than through changes in aggregate demand. They can be market oriented or through direct government intervention. Interventionist policies might include: education and training. Market policies might include taxation; reduction in unemployment benefits – these policies would aim to increase labour geographical/occupation mobility and enable specific focus on unemployment caused by changes in the pattern of demand. Alternative policies such as Keynesian demand management policies would not be suitable because they would lack focus and may cause problems in those areas which are not experiencing high unemployment. However, supply-side policies often take a long time and they are frequently costly.

L4 (9–13): for a discussion of the extent of the effectiveness of supply-side polices with some attempt to compare alternative demand management policies and some attempt to identify potential problems such as, the long time period needed for success or the high cost of intervention. There should be a conclusion.

L3 (7–8): for an analysis of how different supply-side policies would work and some attempt to explain why they would be the most appropriate strategy to solve structural unemployment. Max 7 if no conclusion

L2 (5–6): for an answer that identifies a range of alternative supply-side policies but does not explain how these policies would work to solve the particular problem of structural unemployment, and no comparison or conclusion

L1 (1–4): for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant

2. (a) Explanation of the causes of unemployment.

L4 For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. (9–12)

L3 For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. (7–8)

L2 For a correct but brief explanation of three types of unemployment not necessarily logically presented. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

(b) Discussion of the main macro aims of the government with a reasoned argument about which should have the priority.

L4 For a reasoned and clear discussion, logically presented, dealing with the possible conflicts between the policies. A conclusion should be presented. (9–13)

L3 For a fair but undeveloped discussion, with limited reference to possible conflicts but with a conclusion. (7–8)

L2 For a limited discussion with little development and no conclusion. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

3. Explanation of the causes of unemployment.

L4) For a clear explanation with accurate development of four different causes of unemployment.

L4 should not be given simply for mentioning 4 causes. (9–12)

L3) For a clear explanation of two or three causes of unemployment with a limited development at alternative causes. (7–8)

L2) For a limited attempt with little development – possible of more than one cause of unemployment. (5–6)

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–4)

4. AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

• Knowledge of different types of monetary instruments, including: the use of interest rate changes; changes in the money supply and the use of exchange rate changes.

• Reference to problems associated with unemployment, primarily the inefficient use of national resources

• Explanation of some of the different causes of unemployment

• Analysis of the links between changes in interest rates and unemployment

• Analysis of the links between control of the money supply and or the use of exchange rates to reduce the level of unemployment

AO3 Evaluation

• The effectiveness of monetary policy is likely to depend to some extent upon the cause of unemployment. Monetary policy can be used to influence aggregate monetary demand which will be more effective dealing with cyclical unemployment.

• The use of some monetary instruments might have a negative effect on macroeconomic aims. For example, reducing interest rates might depreciate the currency and potentially promote either cost push or demand-pull inflation.

• Alternative policies might be more effective if structural factors are

responsible for unemployment. In this case, supply-side policies might be more effective.

• Lowering interest rates might cause problems for specific industries within an economy. For example, low interest rates might cause a boom in the housing market.

• A conclusion should make an attempt to make an overall comparison between the use of monetary policy and alternative fiscal or supply side policies. A judgement should be made which directly addresses the statement in question.

AO1 Knowledge and understanding and AO2 Analysis 14

AO3 Evaluation 6