

MJC Preliminary Examination 2011 _ H2 Essay Qn 4

4. Singapore government supply-side policies have created a more dynamic and flexible labour market. Between 2003 and 2008, unemployment fell from 4.0% to 2.2% but inflation rate rose to 6.6%.

- (a) Explain how supply-side policies can lower the level of unemployment. [10]
 (b) Discuss whether the Singapore government should ever be concerned about the economic consequences of falling unemployment. (15)

	CONTENT Candidates should explain how reforms in areas such as education and training, tax/benefit system, labour market reforms (e.g. Trade Unions) might increase flexibility and raise employment. Supply side policies can improve the way labour markets function by making them more flexible in a variety of ways. Such flexibility has a number of dimensions (e.g. occupational , locational) and should result in a more highly-skilled, mobile and employable workforce that is better adapt to a changing economic environment. This is likely to lower the equilibrium level of unemployment (NRU or NAIRU).	
	Knowledge, Application, Analysis and Evaluation	
Level	Descriptors	Marks
L3	For an explanation of how supply side policies can lower the level of unemployment	7 – 10
L2	For application of knowledge and critical understanding of supply side influences on unemployment	4 - 6
L1	For descriptive knowledge if supply-side policies or a series of relevant assertions relating to falling unemployment	1 - 3

CONTENT Part (b) Answer to this question should discuss the costs and benefits of lower unemployment. Candidates should show awareness of the benefits of falling unemployment (lowering of the costs of unemployment) as well as the problems if unemployment falls ‘too far’. These problems are likely to emerge if unemployment falls below the equilibrium level of unemployment (NAIRU/NRU). The likely inflationary impact of such ‘overheating’ should comment on why rising inflation may be undesirable. Such concerns are likely to be reduced if the fall in unemployment is due to a fall in NAIRU/NRU.		
Knowledge, Application, Understanding and Analysis		
L3	For a coherent and balanced discussion of why a government should and should not be concerned about falling unemployment	9 - 11
L2	For an analysis of why a government should OR should not be concerned about falling unemployment	6 – 8
L1	For an application of knowledge and understanding of consequences of falling unemployment.	1 - 5
Evaluation		
E2	Reasoned evaluation	3-4
E1	Mainly unexplained judgement	1-2

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b) Discuss whether the Singapore government should ever be concerned about the economic consequences of falling unemployment. (13)

Suggested Answer Model (a)

Unemployment

Definition : People in working age population who are available for work and actively looking for a job but cannot find one.

→ In the case of Singapore, in recent yrs, the unemployment is largely cyclical (recession) (disequilibrium unemployment) and structural (equilibrium unemployment).

→ Demand deficient unemployment → due to lack of demand

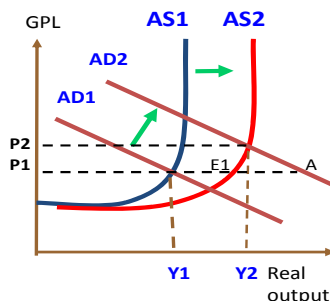
→ If Aggregate demand for labour equals aggregate supply of labour at the current wage and price level. → no disequilibrium unemployment. However, there is equilibrium unemployment → mainly structural unemployment

Supply side policies

Supply side policies are used to solve structural unemployment. Supply side policies are designed to influence the aggregate supply (AS) of a country, and effect changes to factors of production in an economy to achieve a country's macroeconomic objectives

Explain how reforms in areas such as education and training, tax/benefit system, labour market reforms (e.g. Trade Unions) might increase flexibility and raise employment.

Education and Training



- → shifts the AS curve from AS1 to AS2.
- But this has DD side effects ($\uparrow G$) → AD shifts right from AD1 to AD2
- At the new equilibrium, prices \uparrow from P1 to P2, output \uparrow from Y1 to Y2
- Increase in real output → firms increase production → hire more factors of production like labour → increase in employment.

Conclusion

Supply side policies can improve the way labour markets function by making them more flexible in a variety of ways. Such flexibility should result in a more highly-skilled, mobile and employable workforce that is better adapt to a changing economic environment. This is likely to lower the equilibrium level of unemployment (NRU or NAIRU) as implied by a rightward shift in the AS curve.

Answer Model (b)

