

4. *“Singapore's unemployment rate rose to 2.1 per cent in June from 1.9 per cent in March 2011. The Ministry of Manpower (MOM) said 1,500 workers were retrenched and 400 had their contracts terminated prematurely, resulting in a total of 1,900 workers being made redundant in the second quarter of 2011.*

Adapted from www.todayonline.com

- (a) Explain possible causes of unemployment in Singapore. [10]
(b) Assess the view that the Singapore government should focus on achieving low unemployment as its main macroeconomic goal. [15]

Suggested Answer

- (a) Explain possible causes of unemployment in Singapore. [10]

Synopsis

Answer requires students to discuss the causes of unemployment in Singapore. As the time period is not stated, students may discuss the types of unemployment that Singapore faced both past and present. The types of Unemployment should include cyclical, structural and frictional. For each type, there is a need to explain what it is and reasons why it occurred!

1. Intro

In recent years, Singapore has been experiencing three main types of unemployment namely frictional, cyclical and structural unemployment

2. Types of Unemployment

Explain the types of unemployment and reasons they occurred.

a. Frictional Unemployment

Frictional unemployment is transitional unemployment due to people moving between jobs: For example, newly redundant workers or workers entering the labour market (such as university graduates) may take time to find appropriate jobs at wage rates they are prepared to accept. Many are unemployed for a short time whilst involved in job search. Imperfect information in the labour market may make frictional unemployment worse if the jobless are unaware of the available employment opportunities. This type of unemployment is common in all countries inclusive of Singapore.

b. Cyclical Unemployment

Cyclical unemployment is involuntary unemployment due to a lack of aggregate demand for goods and services. This is also known as Keynesian "demand deficient" unemployment and 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 lay-offs. This is due to a fall in demand leading to a contraction in output across many industries.

Sources of Cyclical Unemployment

i. Recession of Trading partner

Singapore is a small and open economy and highly dependent on trade – trade(X+M) is almost 4 times of GDP. Singapore is affected significantly by external demand especially in the US, rather than by domestic demand as the domestic market is small.

Singapore being trade dependent saw rising cyclical unemployment during the global economic crisis of 2008 as well as during 2001 where its major trading partner USA

faced terrorism attacks. This reduced trade with Singapore due to the contraction of the US economy. With a fall in exports (Singapore's exports consists of export of tourism services, export of biomedical services, education and semiconductors etc), this is resulted in a fall in Singapore's AD (draw) and hence national output, leading to a rise in unemployment rate

c. Structural Unemployment

Structural unemployment occurs due to the structural changes within an economy. This type of unemployment occurs when there is a mismatch of skills due to the changing structure of the economy.

Sources of Structural Unemployment

i. Automation

Automation can cause structural unemployment as people are made unemployed because of capital-labour substitution (which reduces the demand for labour). Many of the unemployed from low skills industry have found it difficult to gain re-employment without an investment in re-training. This problem is one of occupational immobility.

ii. Loss in Competitiveness

Singapore's loss in competitiveness in the manufacturing industries due to competition from low-cost emerging countries that have entered world market for investments and trade has changed Singapore's economic structure permanently. e.g. China for manufacturing and India for IT software has permanently reduced the demand for Singapore's manufacturing exports and hence caused structural unemployment

iii. Outsourcing

Outsourcing of jobs to developing countries such as China, India, Vietnam resulted in unemployment among the unskilled, older and low-educated workers.

vi. Changing comparative advantage

Structural unemployment in Singapore is common as the country moves from industry to industry due to its changing comparative advantage. As the country moves from the secondary to the tertiary sector, labour finds itself with a mismatch between their skills and the requirements of the new job.

3. Conclusion

At anyone time unemployment in Singapore could be due to a combination of the different types of unemployment. It is crucial to know the type of unemployment so that appropriate measures can be used to deal with them. The most problematic of Singapore's unemployment would be cyclical unemployment due to Spore being trade dependent; solutions that the government dishes out are usually temporary as it is unable to address the root cause of the problem .

Suggested Marking Scheme

Level	Descriptors	Marks
L3	Good explanation of causes of unemployment with detailed analysis. Displayed ability to choose the relevant causes pertaining to Singapore context	7-10
L2	Some explanation of causes of unemployment. Must relate to the case of Singapore. All 3 types of unemployment to be discussed.	5-6
L1	Superficial explanation of the causes of unemployment.	1 – 4

- (b) Assess the view that the Singapore government should focus on achieving low unemployment as its main macroeconomic goal. [15]

Suggested Answer

Synopsis

Answer requires students to understand the macroeconomic goals of a government and discuss if unemployment should be made the main goal. Students should explain the benefits of making unemployment the main goal. The explanation would include the achieving of complementary goals such as achieving growth. Answer should question if low unemployment should be made the main goal. Other goals should be explored and where appropriate, answers should explain how attainment of other goals may lead to the complementary as well as conflicting goal of unemployment.

1. Intro

The macroeconomic goals of a government would include: achieving stable and sustainable growth, low inflation, full employment, a favourable BOP and a stable exchange rate.

2. Why should the government pursue the goal of low unemployment?

a. Low Unemployment can lead to economic growth

- Lower unemployment → Increase disposable income and hence increase consumption → increase NY → increase in growth & mat SOL

b. Low Unemployment & Equity

- Low unemployment → more people have income hence improve equity

c. Reduce wastage of resource

- Low unemployment → better utilization of limited resources this is important as resources are scarce

3. What are the problems of pursuing low unemployment?

a. Possible conflicts between low unemployment and Inflation

- There is a possibility that demand side policies designed to attain low unemployment may result in inflation. This is depicted by the Philip's curve (draw) which explains the inverse relation between inflation and unemployment.

b. Possible conflicts between low unemployment and favourable BOP

- With lower unemployment, there would be rising disposable income. This may result in increased imports and hence have a worsening impact of the trade balance and thus BOP.

4. Are there other objectives the Singapore government should pursue?

Currently, one of the main macro problem facing Singapore is inflation as well as stable growth. Attempting to attain these objectives could enable the attainment of low unemployment.

a. Low inflation can lead to low unemployment

- There is a possibility that supply side policies designed to attain low inflation may result in low unemployment. Low inflation enables Singapore's export to be price competitive and hence create

employment opportunities for labour in the export oriented industries..

- Nevertheless, contractionary demand side policies that are employed to tackle inflation may result in more unemployment. As AD falls (draw) so does output and hence employment.(explain why)

b. Stable growth can lead to low unemployment

- Instability in the global market in 2008, resulted in a recession in Singapore. Unemployment has not been spared. Policies (e.g. expansionary FP) designed to tackle recession has been able to raised the demand for labour and hence lowered unemployment.
- Nevertheless as the government focus its aims at sustainable growth and encouraged the service sector (in particular pharmaceuticals) while laying less emphasis on the manufacturing sector, unemployment has suffered, particularly structural unemployment

5. Conclusion : What should be the objective of the Singapore Government?

There is no hard and fast rule to decide on the current goal of the Singapore government. Usually current goals of a government is determined by the inability to achieve particular goals. But the fact that some goals are in conflict with other goals, complicates matters. In addition, goals can be complementary and hence pursuing one goal may lead to others. Thus a government may pursue goals that are more close to the heart like unemployment at times or even unfavorable ones like pursuing growth that may result in structural unemployment.

Level	Descriptors	Marks
L3	Detailed and well explained answers that are broad in explaining the need to focus on achieving low unemployment at times as well as other goals depending on the current economic climate. Answers should address both complementary and conflicting goals.	9-11
L2	One sided answer that discusses why the need to focus on low unemployment OR one sided answers that explain the need to focus on other goals	6-8
L1	Answers that superficially deals with the objectives of a government.	1-5
E2	Detailed explanation on how attempts to achieve goals other than unemployment may improve or worsen unemployment.	3-4
E1	Superficial evaluation on how attempts to achieve goals other than unemployment may improve or worsen unemployment.	1-2