

CHAPTER 25 : Employment and Unemployment (Causes and effects)

Key terms

1. Cyclical or demand-deficient unemployment : when there is insufficient demand in the economy for all workers who wish to work at current wage rates to obtain a job.
2. Frictional unemployment : when workers are unemployed for short lengths of time between jobs.
3. Real wage or classical unemployment : when workers are unemployed because real wages are too high and inflexible downwards.
4. Seasonal unemployment : when workers are unemployed at certain times of the year, such as building workers or farm workers in winter.
5. Short-term unemployed : in the UK, those unemployed for less than a year
6. Structural unemployment : when the pattern of demand and production changes, leaving workers unemployed in labour markets where demand has shrunk.
7. Technological unemployment : when developments in technology cause roles to become redundant.

1. Causes of unemployment

Types of unemployment	Meaning
1. Frictional unemployment	Is the temporary and arise where people are in between job. This is time between leaving job and looking for another one.
2. Seasonal unemployment	This occurs during certain points of the year, usually around eg. summer/winter
3. Structural unemployment	As a result of the changing structure of economy activity occurs with a long term decline in demand for the goods and services in the particular industry, which costs job.
4. Cyclical unemployment	Recession, negative GDP over 6 months : Firms cannot sell goods and services as people have lower income : Firms need to redundant employees and caused unemployment

2. The effects of unemployment

Advantages	Disadvantages
<p>1. People don't have any income to buy goods and services : It can reduce AD and hence reduce pressure of demand-pull inflation.</p> <p>2. Firms that sell inferior goods can possibly gain more revenue.</p> <p>3. Wage can be lower and hence firms can reduce cost of production : As a result, it can reduce cost-push inflation.</p>	<p>1. People have lower disposable income and cannot afford goods and services : There will be lower standard of living</p> <p>2. It could affect the mental health of unemployed.</p> <p>3. As there will be lower demand in the market, Firms receive lower revenue and profit</p> <p>4. There will be inefficiency used of resources.</p> <p>5. Government receive lower tax revenue : Gov. Less budget to develop countries</p> <p>6. Government may need to pay more on unemployed benefits : It can create national debt</p>

