

Chapter 26

Put into practice questions

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Which of the following statements are true and which are false? Explain your answer.

- Cyclical unemployment may be caused by high levels of aggregate demand. TRUE; low levels of demand increase unemployment
- A fall in export demand might cause cyclical unemployment. TRUE; a lack of aggregate demand
- To reduce structural unemployment may require retraining. TRUE to help employees reallocate
- High real wages are associated with excess demand for labour. FALSE; excess supply

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The natural rate of unemployment is best defined as:

- The unemployment caused by a lack of aggregate demand in the economy FALSE
- The number of people who are registered as unemployed but work in the hidden economy FALSE
- The unemployment rate in the economy when the labour market is in equilibrium TRUE
- The total number of people of working age who are economically inactive FALSE

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Which of the following statements are true and which are false? Explain your answers.

- To tackle involuntary unemployment the government should focus on demand-side policies. TRUE
- To tackle voluntary unemployment the government should focus on supply-side policies. TRUE
- High levels of unemployment mean the economy is operating outside of the production possibility inside frontier. FALSE; it is operating inside the frontier

End of chapter put into practice questions

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Show using a diagram the effect on unemployment of an increase in benefits leading to less incentive to work.

This shifts the job acceptance inwards; this increases the level of unemployment at full employment (Opposite of what happens in figure 26.5)

Show using a diagram the effect on unemployment of a fall in demand for labour following a fall in aggregate demand in the economy.

Demand shifts inwards (opposite of what happens in figure 26.6)

Show using a production possibility frontier how unemployment leads to inefficiency in the economy.

Economy operates within the frontier. See figure 26.8

Explain how labour immobility might create more unemployment.

Employees cannot move location or between industries to accept jobs.

Show how reducing income tax might reduce voluntary unemployment.

See figure 26.7

Show how reducing welfare benefits might reduce voluntary unemployment.

See figure 26.5

Show how weaker trade union power might reduce unemployment.

The wages level may fall increasing the quantity demanded of labour and reducing the quantity supplied moving nearer to equilibrium. See figure 26.4

Show how an increase in the labour force might affect unemployment.

Increases the supply of labour; impact in unemployment depends on the job acceptance rate.