2.5 Causes and Consequences of Unemployment

Total Marks

AQA 7136 · Calculators not allowed · about 65 minutes · Write-in edition

Name: _____ Date: ____ / ____ / _____

Answer all questions. Use full sentences for every 'Explain', 'Assess' or 'Evaluate' question and for the diagram description. Time guidance: 65 minutes.

1 Define structural unemployment and give a brief UK example.

(Total for Question 1 is 2 marks)

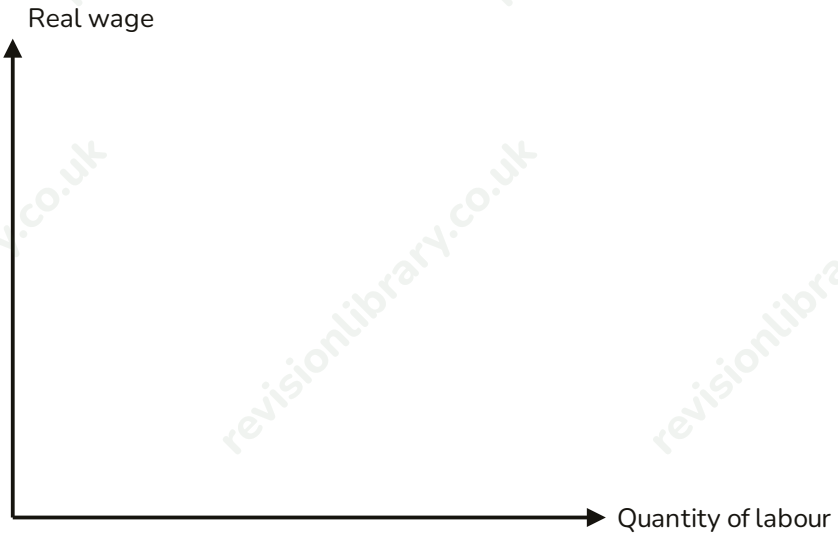
2 Define real-wage (classical) unemployment and explain the role of a wage floor.

(Total for Question 2 is 2 marks)

3 Define seasonal unemployment and give one brief UK example where it occurs.

(Total for Question 3 is 2 marks)

4 Labour market diagram. Draw a competitive labour market diagram for a local UK industry and show real-wage (classical) unemployment caused by a wage floor set above the market-clearing wage. On your diagram label the vertical axis; the horizontal axis; labour supply and labour demand; the original equilibrium wage and employment; the wage floor and the resulting unemployment gap. Briefly explain the mechanism in one or two sentences.



(Total for Question 4 is 6 marks)

5 Explain one cause of structural unemployment in the UK car industry, giving a specific mechanism.

(Total for Question 5 is 3 marks)

6 Explain two economic consequences of unemployment for individuals, using the UK context where appropriate.

(Total for Question 6 is 3 marks)

7 Evaluate the view that a rise in structural unemployment in the UK automotive industry will have mostly negative consequences for the UK economy.

(Total for Question 7 is 25 marks)

Mark scheme · 2.5 Causes and Consequences of Unemployment

Question 1

longer-term unemployment caused by a mismatch between workers skills/locations and the skills/locations demanded by employers — **B1**

example: job losses in parts of the UK car manufacturing supply chain following automation or relocation of plants overseas — **B1**

Answer: Longer-term unemployment caused by a persistent mismatch between the skills or location of workers and the jobs available; example: workers made redundant in a local steel plant whose skills do not match new high-tech manufacturing jobs.

Question 2

unemployment that occurs when real wages are set above the market-clearing level, creating excess labour supply — **B1**

a wage floor, such as a statutory minimum wage above equilibrium, prevents wages from falling to clear the market, sustaining unemployment — **B1**

Answer: Unemployment that exists when real wages remain above the equilibrium level so more workers want jobs than firms want to hire; a wage floor like a minimum wage can prevent wages adjusting downward and so maintain this excess supply.

Question 3

unemployment that occurs at certain times of the year when demand for labour in particular industries falls — **B1**

example: farm workers or tourism-related staff who are unemployed in the winter months when seasonal demand is low — **B1**

Answer: Unemployment that arises at particular times of year when demand for labour falls seasonally; example: tourism or agricultural workers who are out of work in the off-season.

Question 4

axis labels correct: vertical labelled real wage (or wage) and horizontal labelled quantity of labour (or employment) — **B1**

labour supply and labour demand curves drawn and labelled (supply upward sloping, demand downward sloping) — **B1**

initial equilibrium clearly marked with wage W* and employment L* — **B1**

wage floor drawn as a horizontal line above W* and labelled (WF or minimum wage) — **B1**

unemployment gap correctly indicated and labelled as the difference between labour supplied at WF and labour demanded at WF — **B1**

brief explanation: states that the wage floor prevents wage falling to W*, causing excess supply of labour and therefore unemployment, linking the diagram to the mechanism — **B1**

Answer: Diagram shows WF above W*, employment falls to LD(WF) while labour supply is LS(WF); unemployment = LS(WF) - LD(WF). Mechanism: wage floor keeps wages above market-clearing level, creating excess labour supply.

Question 5

identifies a cause, e.g. technological change/automation increasing capital intensity in car plants — **M1**

explains the mechanism: automation reduces demand for routine assembly-line workers while increasing demand for higher-skilled technicians and engineers — **A1**

links to structural unemployment: workers with previous skills may be unable to fill the new vacancies without retraining or relocation — **A1**

Answer: Technological change such as automation can reduce demand for routine assembly-line labour while increasing demand for higher-skilled technicians; as a result, existing workers lose jobs but cannot fill the new roles without retraining, producing structural unemployment.

Question 6

identifies one individual economic consequence, e.g. loss of income leading to lower living standards — **M1**

explains how this operates: loss of wages reduces consumption, may increase debt or force use of savings, worsening material welfare — **A1**

identifies and explains a second economic consequence, e.g. human capital depreciation: prolonged unemployment can erode skills and reduce future employability and earnings potential — **B1**

Answer: Individuals lose income which reduces living standards and may increase debt; prolonged joblessness can also erode skills and reduce future employability, lowering lifetime earnings.

Question 7

Level 1 Basic statements about structural unemployment with limited or no linkage to effects. Simple, undeveloped points and little application to the UK automotive industry. Little or no judgement. — **1-5**

Level 2 Some accurate analysis of consequences for workers, firms or government finances with partial application to the UK automotive industry. Some explanation of mechanisms but limited evaluation or balance of arguments. A simple tentative conclusion may be offered. — **6-10**

Level 3 Clear analysis of multiple consequences across workers, firms and government finances, with relevant application to the UK automotive industry and consideration of distributional and long-term effects. Good evaluation considering magnitude, time lags and possible offsetting effects or policies, and a supported judgement. — **11-15**

Level 4 Thorough, well-developed analysis and evaluation. Clear use of industry-specific examples and realistic policy responses. Consideration of uncertainty, assumptions and who gains and who loses. A balanced, reasoned conclusion with weighing of evidence. — **16-20**

Level 5 Comprehensive, well-integrated answer. Strong, applied analysis across micro and macro channels, precise consideration of magnitude, short and long run effects, policy effectiveness and distributional consequences. A well-justified and nuanced final judgement that recognises trade-offs and limitations. — **21-25**

Indicative content:

- Workers: higher long-term unemployment reduces incomes, increases poverty and worsens mental health; loss of firm-specific and general human capital; lower lifetime earnings for displaced workers; spatial mismatch if jobs concentrated in specific regions (e.g. the Midlands).
- Firms: local suppliers lose demand, reduced sales and investment; potential restructuring and relocation of firms; higher recruitment and training costs if skills mismatch persists; possible benefits for surviving firms via lower wage demands in the local labour market.
- Government finances: higher benefit payments and retraining costs, lower tax receipts, higher budget deficit; potential need for active labour market policies increases public spending.
- Macroeconomic effects: lower aggregate demand from unemployed workers reduces AD, possible negative multiplier effects; potential reduction in productivity growth if skilled labour is lost or discouraged.
- Offsetting factors: reallocation of resources into growing sectors (e.g. EV battery manufacturing) could create new jobs; firms may invest in retraining or automation that raises long-term productivity; regional policy or subsidies could attract new investment.
- Policy responses: retraining and lifelong learning programmes, relocation support, targeted subsidies or investment in regional infrastructure, incentives for firms to hire displaced workers; active labour market policies effectiveness varies, with time lags and fiscal cost.
- Evaluation considerations: magnitude of unemployment relative to sector size; duration and depth of structural change; ease of retraining and transferability of skills; fiscal capacity to support retraining; distributional impact across regions and cohorts; time horizon over which negative effects might be offset by supply-side adjustments.
- Possible conclusion: likely mostly negative in the short and medium run for affected workers, firms and regional economies, but with judicious policy and successful reallocation the long-run outcome could be less severe or even positive if the economy adjusts and upgrades skills and capital.