



ECO.MAC3 Causes and Consequences of Unemployment

AQA 7136 · Calculators not allowed · about 75 minutes

Total Marks

Name: _____ Date: ____ / ____ / ____

Answer all questions. Use full sentences for every 'Explain', 'Assess' or 'Evaluate' question and for the diagram description. Time guidance: 75 minutes.

1 Define frictional unemployment in the context of the UK labour market.

(Total for Question 1 is 2 marks)

2 Define structural unemployment and give a brief UK example.

(Total for Question 2 is 2 marks)

3 Define cyclical (demand-deficient) unemployment and state when it typically rises in the business cycle.

(Total for Question 3 is 2 marks)

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

(Total for Question 4 is 2 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 briefly why the UK claimant count and the Labour Force Survey figures for unemployment can differ, focusing on the reasons the two measures produce different headline numbers.

(Total for Question 6 is 3 marks)

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

(Total for Question 7 is 2 marks)

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

(Total for Question 8 is 3 marks)

9 Explain two likely consequences of a rise in unemployment for UK government finances.

(Total for Question 9 is 3 marks)

- 10** 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.

Figure (to be drawn): Student to draw vertical axis labelled Real wage, horizontal axis labelled Quantity of labour; upward-sloping labour supply (LS) and downward-sloping labour demand (LD); intersection at equilibrium wage W^* and employment L^* ; horizontal wage floor line WF above W^* ; at WF labour supplied $LS(WF) >$ labour demanded $LD(WF)$, unemployment gap shown as $LS(WF) - LD(WF)$.

(Total for Question 10 is 6 marks)

- 11** Explain briefly how the Phillips curve illustrates a trade-off between inflation and unemployment, and state one limitation of the simple Phillips curve in the modern UK context.

(Total for Question 11 is 3 marks)

- 12** Evaluate the view that a rise in structural unemployment in the UK automotive industry will have mostly negative consequences for the UK economy. In your answer analyse the likely effects on workers, firms and government finances, consider possible offsetting benefits or mitigation, and reach a supported judgement. Where appropriate refer to distributional and long-term effects. Draw data or an example from the UK automotive industry to support your analysis and include at least one brief supply-side policy or labour-market response.
- 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 12 is 25 marks)

Mark scheme · ECO.MAC3 Causes and Consequences of Unemployment

Question 1

- **B1** short-term unemployment that occurs when workers are between jobs or entering the labour market, for example people voluntarily leaving a job to find a better one
- **B1** caused by job search, matching processes and time taken to find suitable employment
- **Answer: Short-term unemployment arising when workers are between jobs or searching for their first job; it results from the time taken to match workers with suitable vacancies.**

Question 2

- **B1** 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
- **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 3

- **B1** unemployment that arises when there is insufficient aggregate demand for goods and services, so firms reduce output and lay off workers
- **B1** it typically rises during recessions or downward phases of the business cycle
- **Answer: Unemployment caused by a fall in aggregate demand so firms cut output and workers, and it usually rises during recessions or economic downturns.**

Question 4

- **B1** 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
- **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 5

- **M1** identifies a cause, e.g. technological change/automation increasing capital intensity in car plants
- **A1** 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
- **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

- **M1** the claimant count measures people claiming unemployment-related benefits, so it excludes unemployed people who do not claim benefits
- **A1** the Labour Force Survey (LFS) measures people actively seeking and available for work using a household survey, so it can include people not on benefits and exclude some claimants who are not job-seeking
- **B1** these definitional and coverage differences cause the two headline figures to differ, and timing or administrative changes can also affect the claimant count independently of the LFS
- **Answer: The claimant count only includes benefit claimants while the LFS is a household survey of those actively seeking work; differing definitions, coverage and administrative timing make the two headline numbers differ.**

Question 7

- **B1** 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
- **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 8

- **M1** identifies one individual economic consequence, e.g. loss of income leading to lower living standards
- **A1** explains how this operates: loss of wages reduces consumption, may increase debt or force use of savings, worsening material welfare
- **B1** identifies and explains a second economic consequence, e.g. human capital depreciation: prolonged unemployment can erode skills and reduce future employability and earnings potential
- **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 9

- **M1** identifies one consequence: higher unemployment increases government spending on benefits such as Jobseeker Allowance or the Universal Credit element relating to unemployment
- **A1** explains the mechanism: more claimants and longer durations raise public expenditure, putting pressure on the budget
- **B1** identifies and explains a second consequence: tax revenues fall as income tax and national insurance receipts decline when fewer people are employed, widening the budget deficit unless spending is cut or borrowing increases
- **Answer: Government benefit spending rises as more people claim unemployment-related support, while tax receipts fall because fewer people pay income tax and national insurance, worsening the fiscal balance.**

Question 10

- **B1** 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
- **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 11

- **M1** explains the Phillips curve: it shows an inverse relationship between inflation and unemployment, implying lower unemployment is associated with higher inflation and vice versa
- **A1** development: policymakers trade off a bit of higher inflation to reduce unemployment in the short run
- **B1** limitation: in the long run the trade-off may not exist because expectations adapt, or supply shocks can shift the curve; e.g. UK inflation expectations and supply shocks mean the simple stable trade-off is unreliable
- **Answer: The Phillips curve suggests an inverse short-run trade-off between inflation and unemployment, but a limitation is that expectations and supply shocks mean the relationship may break down in the long run, so it is not a reliable policy menu for the UK.**

Question 12

- **Level 1** (1-5): 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.
- **Level 2** (6-10): 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.
- **Level 3** (11-15): 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.
- **Level 4** (16-20): 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.
- **Level 5** (21-25): 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.
- **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.