

LOCKIN EDUCATION @ BUGIS



H2 ECONOMICS



UNEMPLOYMENT & BALANCE OF PAYMENTS (BOP)

“Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime.” —Maimonides

Prepared by: Mr Rubin, Head of Economics

+65 8060 2036 | 112 Middle Road, #04-03, S188970 | www.lockintuition.com | @lockinedu

1. TYPES OF UNEMPLOYMENT

- Formula: $\text{number of UnN} / \text{Labour force} \times 100$ (LABOUR FORCE ONLY INCLUDE PEOPLE WHO ARE W+A TO WORK, DON INCLUDE PEOPLE WHO ARE NOT ACTIVELY SEARCHING FOR JOB)
- Frictional UnN (useless, almost never used. Happens for every country at every given period of time): due to imperfect information which then causes time lag. For example, university graduates typically take 6 months to 1 year to find a job since they need time to find out relevant information like salary, job progression, culture → this is due to imperfect information → during that period, known as frictional unemployment.
- Structural UnN: due to skills mismatch. [**Economic analysis**] when workers are made redundant and retrenched in the sunset industry, they lack the relevant skills to be employed in sunrise industries **despite jobs available**, a case of skills mismatch, structural unemployment arises. (if doing CSQ, can find out the “sunset” and “sunrise” industries from ext)
- Demand deficient UnN/cyclical unemployment (most common): [**Economic analysis**] AD increase, increase demand for g+s, firms will experience unplanned depletion of inventories, increase production, hire more FOPs including labour, derived demand for labour increase, demand deficient unemployment falls.

2. Balance of Payments (BOP)

- Consists of current account (CA) & capital & financial account (CFA)
- Current account (CA): **balance of trade (X-m)**, income balance, net current transfers

- Capital & Financial account (CFA): **Foreign Direct Investment** (FDI aka long term investment), **hot money** (short term investment. Understand hot money as savings)

3. PRACTICE

The country is experiencing high inflation. Explain the macroeconomic impacts.

Answer: High inflation, price of exports will increase, assume $PED > 1$ since there are many substitutes, quantity demanded will fall MTP, TR for export fall. Imports will be relatively cheaper, domestic consumers will switch to cheaper imports, DD for imports will increase, total expenditure for imports will increase. $(X-m)$ fall. Balance of trade worsens, since BOT is a component of CA, CA worsens, BOP worsens.

$(X-m)$ fall, AD fall. AD decrease, decrease in demand for $g+s$, firms experience unplanned accumulation of inventories, they will decrease production, hire less FOPs including labour, give less factor payment, household income decrease, PP decrease, decrease $w+a$ to consume $g+s$, induced consumption decrease, AD decrease again. Firms will decrease production, hire less FOPs, give less factor payment again. Hence RNY decrease by multiple folds, causing negative AEG. (real GDP increase or real GDP growth rate is positive)

AD decrease, decrease demand for $g+s$, firms will experience unplanned accumulation of inventories, decrease production, hire less FOPs including labour, derived demand for labour decrease, demand deficient unemployment increase.

[Effect of inflation on SOL] Assume nominal wage is constant, real wage will fall, purchasing power fall, fall in goods and services available for consumption, fall in material SOL.

As basic necessities are more expensive, low income households may not be able to afford, increase stress level, may resort to stealing to survive, lower quality of life +

increased crime rates, non material SOL worsens.