1. Explain why you think each of the following objectives might be desirable:

**Low economic growth**: Usually governments will seek fast economic growth. However, slow growth may be more sustainable and have less harmful effects on the environment. May stable prices; this enables easier planning and should encourage consumption and investment and trade.

**Reasonable level of exports relative to imports**: The country can benefit from trade abroad (e.g., access to more products at lower prices) without there seeming to be an imbalance which might provoke political retaliation.

**Low unemployment**: This means resources are not being wasted, the country is not operating within the PPF.

2. Would you say one of these targets was more important than the others in your economy at the moment? Over to you - what seems to be the big issue at the moment?

3. What other indicators might you use to judge the performance of an economy?

*Answers might include:*
To look at the happiness of your people, the quality of life, the impact of the economy on the environment, the distribution of income and the provision and availability of the essential products and services.

1. Based on the data in Table 14.1, which economy do you think is doing best if the targets are economic growth, stable prices, low unemployment, and a healthy trade position? Explain your answer.

China has positive trade balance, fast growth, low unemployment and relatively low inflation.

2. What other data might be useful to make a decision?

- May be interested in the political system and e.g. human rights.
- May be interested in the distribution of income and the wealth of the economy.
- May be interested in the quality of life.

1. Do you think that someone who works only one hour a week should be regarded as in employment?
May be misleading as they are underemployed but equally at what point do you decide someone is ‘employed’? How many hours?

Why might this suggest that underlying unemployment is actually much higher than reported figures?

May be that people are counted as employed even though they would like to work much more.

2. Do you think that the Labour Force Survey or the claimant count is a better way of measuring unemployment? Explain the possible reasons why the claimant count and the ILO Labour Force Survey data may differ in Figure 14.1.

*Answers might include:*
May be better because not open to as much manipulation by a government. The claimant count can be changed by altering the terms and conditions under which people can claim benefits. However the Labour Force Survey measures peoples’ own view of their situation.

3. Analyse the possible effects of the data in Figure 14.1 on UK businesses

*Answers might include:*
Increasing unemployment until around 2014 - may reflect lower demand and therefore this will impact on sales, stocks and staffing levels. However, some firms will still be expanding and may find it easier to recruit. Post 2013 it looks like a recovery and therefore more demand for staff; labour markets may be tighter with more pressure upwards on wages.

p396.
*Business Analysis 14.1*

Does it matter if the published unemployment figures underestimate the true levels of unemployment?

*Answers might include:*
There are ethical issues and may reduce trust in government statistics; this may affect concerns over the genuine state of the economy which may deter investment and even the value of the exchange rate.

p398.
*Think About It 14.3*

In the recent recession unemployment has risen significantly, but by less than expected given the major falls in aggregate demand. Why do you think this might be?

*Answers might include:*
- Managers may be holding on to staff rather than let them go and then have to recruit later.
- Managers may be optimistic that the recovery won’t be too long and so better to retain staff.
- Staff may be cooperative when it comes to freezing wages or reducing hours.
1. Why do you think unemployment was so high in the UK in 2012?

Lack of demand due to the recession and the banking crisis.

2. What sort of cultural change do you think might reduce unemployment?

Answers might include:
- Less willing to accept benefits
- Greater sense that you need to work
- Greater willingness to move to find work
- Greater willingness to retrain

1. Discuss the possible reasons for the differences in unemployment rates in these countries?

Answers might include:
- Levels of aggregate demand
- Differences in benefit rates
- Differences in income taxes
- Differences in cultures

2. What difference might these unemployment rates mean to managers of businesses operating in these countries?

Answers might include:
- Might affect labour costs
- Might affect ease of recruitment
- Might affect incomes and therefore demand

3. What actions might a government take to reduce these unemployment rates?

Answers might include:
- Could be demand side measures e.g. more spending or reductions in tax rates
- Could be supply side measures e.g. reduction in the availability of welfare and benefits, more training opportunities

1. Do you think that reducing employees protection at work helps create jobs?

Answers might include:
It may help improve productivity, output, quality and sales; this might boost e.g. exports and help demand for goods and services and jobs. However, additional costs and regulations may deter employers from hiring.
2. What two measures would you introduce to reduce unemployment in your country?

*Answers might include:*  
Depends on the situation. At present the government is working on supply side measures e.g. incentives to private businesses to help people get back to work and reductions/limits on welfare to encourage more job seeking.

**Think About It 14.4**

1. Find out the unemployment levels in your country. How much do these levels vary between skills and regions? How much have they changed over time?

Over to you—may be quite significant differences.

2. Is unemployment the major economic issue in your country? Explain your view.

Over to you—what are the key economic issues in the news. In the UK, at the time of writing there was concern over youth unemployment and long term unemployed but overall unemployment figures were not as high as expected given the nature of the recession. There were greater concerns over the growth rate of the economy.

**p406.**  
**Think About It 14.5**

Why might wage increases linked to productivity gains not be inflationary?

If employees are paid more but produce more as well this is not necessarily inflationary; it is inflationary when they are paid more for the same output.

**p407. Business Analysis 14.5**

1. Discuss the possible reasons for the differences in inflation rates in these countries?

*Answers might include:*  
May be due to:  
- Demand  
- Higher costs  
- Imported inflation  
- Or a combination of these

2. What difference might these unemployment rates mean to managers of businesses operating in these countries?

*Answers might include:*  
- May affect demand e.g. with high levels of unemployment this may reduce incomes and spending
May affect supply; with high level of unemployment may be easier and cheaper to recruit for those that are hiring

Labour costs not likely to rise significantly as wage demands likely to be limited due to fear as about jobs

p409.  
Business Analysis 14.6

1. Analyse the possible effects on UK businesses of the changes in inflation shown in Figure 14.9.
Depends in part on the causes, measures adopted by the government to control and other factors. For example if inflation is expected to fall due to low demand, higher interest rates and less confidence lead to less spending this may reduce sales and investment. If however, inflation is falling due to lower costs this may help with profit margins.

2. Discuss the possible causes of inflation over this period.

Answers might include:
May be due to changes in demand or costs.
Even in the recession and immediate post recession years the UK was experiencing relatively high inflation due to higher food prices, higher energy prices, a weak pound increasing import costs and changes such as an increases in VAT. This meant that despite lower demand which you might expect to limit inflation prices were still rising fast. Expectations are that this cost inflation will reduce and that demand will still be relatively low which should reduce inflation.

p.411
Think About It 14.6

1. What is inflation in your country at the moment?
Depends on your country.

2. Is it perceived as a major economic problem?
Depends on your country.

3. What actions do you think the government could take to reduce it?
Depends on the cause; may use demand side measures to reduce demand; may try to control the money supply; may try to control cost increases.

4. Inflation measures the cost of living. If the cost of living goes up, does the standard of living necessarily fall?
Depends on what is happening to incomes.

5. How might an increase in inflation affect business planning?
If it is unanticipated inflation it makes planning more difficult and can reduce investment.
Think About It 14.7

To what extent do you base your views of the future on the past?

Answers might include:
Over to you- in many areas you might e.g. what the weather is likely to be like in certain months, whether the bus is likely to arrive on time, whether a certain programme is worth watching. However, you may be continually reviewing your ideas and if new information comes in may change your expectations as a result of this.

Suggested Answers to Short Answer Questions

1. Lack of demand; lack of incentive to work; lack of skills to work.
2. Less demand; cheaper labour supply.
3. Reduce benefits to encourage people to take a job; more training; more information on jobs available.
4. Unemployment benefits; social costs.
5. Measures price changes for a typical basket of goods over a year; weighted price index.
6. Prices are increasing at a slower rate.
7. May attempt to control costs e.g. limit wage increases; may attempt to reduce demand.
8. When prices are falling.
9. Increase uncertainty and deters investment; reduces real value of earnings for those that do not get wage increases; menu costs.