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| ***External influences –Unemployment, BOP, Exchange rates*** |

**Introduction** (p.118-123):

* **Discussion of effects of unemployment, balance of payments and exchange rates**

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| Unemployment |

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| Working population |

What factors cause unemployment?

Three main factors:

* ***Cyclical unemployment***
* ***Structural unemployment***
* ***Frictional unemployment***

Cyclical unemployment

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Associated with the business cycle:

* *Recession results in a fall in demand for firms’ output –* ***need fewer workers*** *to produce* ***fewer goods*** *and* ***services***
	+ *Workers who are unemployed have lower incomes – therefore* ***spend less****, thus* ***deepening*** *the recession*

***Structural unemployment***

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Associated with declines in important industries:

* Certain **types of workers** being unable to find jobs – even though other sectors be not be able to find suitable workers

It results from structural changes in the economy which radically changes the demand for labour:

**Four likely causes -**

1. ***Changes*** *in* ***consumer tastes*** *and* ***expenditure patterns****, possibly resulting from higher incomes (tertiary sectors goods for example)*
2. *Workers in some industries may find* ***demand*** *for their* ***services declining*** *– e.g. high-street banking as consumers switch to online banking*
3. ***Structure*** *of an industry: Heavy manufacturing industries such as steel making and ship building have* ***declined*** *in most Western economies – difficulty for workers to* ***transfer skills*** *to other industries and occupations*
4. ***Improvements*** *in* ***technology*** *– employers looking for more* ***adaptable*** *and* ***multi-skilled*** *workers (familiarity with IT for example) and so* ***unskilled workers*** *may lose out to the new labour market*

**Frictional unemployment**

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Most workers who lose their jobs are able to **move quickly** into new ones, but others may take longer to find **suitable employment**. While they look, they are said to be **‘frictionally’** unemployed. It is a feature of **changing labour demand** in different industries and businesses which are all occurring at the same time.

***Government policies towards to unemployment:***

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| ***Cyclical*** | ***Structural*** | ***Frictional*** |
| Government **manages** the economy to avoid substantial swings in the business cycleKeeping **inflation low**Aim to keep a **competitive rate of exchange** so that overseas demand for home-produced goods does not fall | Government should **NOT** prevent economic changes that lead to structural unemployment – it’s against economic change and progressProvide **education** and **training** programmes for workersTraining for **long-term** unemployed or lose unemployment benefits  | Encourage **provision** of **information** about job opportunities both locally and regionally**Job centres** and employment agenciesArgument for reducing unemployment benefit as an incentive to find alternate employment |

***The costs of unemployment***

Ultimately, it is a **waste of human resources** and so the **costs**are **significant**:

* *The economy* ***would be*** *producing more goods and services which are then available for* ***consumption***
* *Cost of* ***supporting unemployed****(unemployment benefit – payment and housing allowance for example)*
* *Social problems – i.e.* ***increased crime*** *(cost to state)*
* *Unemployment reduces* ***demand*** *for* ***goods*** *and* ***services*** *by reducing* ***incomes*** *of those looking for work*
* *Loss of* ***income*** *and* ***lower standards*** *of living*
* *Longer periods of unemployment make it more difficult to find work for people:*
	+ *out-of-date skills,*
	+ *lack of confidence,*
	+ *Depression (cost to health services).*
	+ *In the UK, an argument of creating a ‘benefit culture’: people not interested in working which may then spread to societal and cultural acceptability and perhaps generational unemployment for families (lack of role models)*

Balance of Payments (current account)

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| Balance of payments (current account)  |

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| Imports |

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| Exports |

*If a country’s economy has a large and persistent deficit on its balance of payments, then serious economic problems could result, such as:*

* *A* ***fall*** *or* ***depreciation*** *in the value of its* ***currency***
* *A* ***decline*** *on the country’s reserves of* ***foreign currency***
* *An* ***unwillingness*** *of* ***foreign investors*** *to put money into the economy*

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| *The business importance of these problems is likely to be* ***most serious*** *if:** *Exchange rate (or frequent fluctuations) make* ***importing*** *or* ***exportingtoo risky***
* *Government takes corrective actions by:*
	+ *Limiting foreign exchange* ***transactions***
	+ *Putting substantial* ***controls*** *on* ***imports*** *(such as tariffs or quotas)*
		- *While good for protecting* ***domestic businesses*** *in terms of competition,* ***retaliation*** *by other countries could reduce export demand*
		- *Import controls are serious for firms that depend on* ***importedsupplies***
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***Exchange rates:***

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| Exchange rate |

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| Exchange rate DEPRECIATION |

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| Exchange rate APPRECIATION |

*As with any price on the free market, exchange rates are determined by the forces of* ***supply*** *and* ***demand****.*

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| Demand for currency | Supply of the currency |
| *Foreign buyers of domestic goods* | *Domestic businesses buying foreign imports* |
| *Foreign tourists spending money in the country* | *Domestic population travelling abroad* |
| *Foreign investors* | *Domestic investors abroad* |

(factors that determine the demand for and supply of a currency)

***Exchange rate fluctuations:***

When **demand** for a currency **exceeds** supply, its value will rise. This is called appreciation because one unit of the currency will **BUY more units** of other currencies.

***Appreciation of the currency – winners and losers***

Impact of dollar appreciation from €8.60 to €10.00

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| ***Importer*** | ***Exporter*** |
| …places an order for **€8,600** worth of components **from a French supplier**at the **old** exchange rate, this would cost **$10,000**at the **new** exchange rate, this would cost **$8,600**the importer’s costs have **fallen** and this makes the **domestic** business more competitive other businesses that are currently buying domestic components will now be encouraged to buy French ones (as they are cheaper) | has a contract to supply **$500,000** worth of goods **to a French customer**at the **old** exchange rate these goods would be sold for **€430,000**at the **new** rate, these would be sold for **€500,000**the exporter’s products are now **less competitive** (more expensive) on the French market – **export orders** are likely to be lostsales are also likely to be **lost** at home since firms may be able to **import** more cheaply from French businesses |

***Worksheet summary quiz and activity:***

1. How might a **depreciation** of a country’s currency lead to benefits for the industry?

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1. **What** can a government do to assist/decrease unemployment in a country?

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1. Briefly, highlight the costs of **unemployment** in a country?

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**Summary of the worksheet in your own words (in English and Chinese):**

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*Vocabulary check:*

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| **English** | **Chinese** |
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