

Tutorial 4A- Section D: Essay

Discuss the determinants of the level of unemployment in your country? [15]

- Define & explain full N equilibrium
- Identify that full N equilibrium i.e. no cyclical unemployment
- S'pore's unN is due mainly to frictional, cyclical & structural unN.

- Explain causes of **real-wage** unemployment in S'pore:
 - uncompetitive wage rates for lower skilled workers as compared to other countries in region, e.g. Thailand, Indonesia, Vietnam, etc., not caused by strong trade union, but rather, due to high employer CPF contributions, high GDP and strong exchange rate.
 - However, our pattern of job loss after the Asian Financial Crisis has been followed by substantial wage cuts made esp to employers' contributions to CPF and variable bonus.

- Explain causes of **cyclical** unN w.r.t S'pore's labour force:
 - Demand deficient unN – applicable during the current economic crisis. Firms aiming to maintain export competitiveness try to reduce costs of production by reducing output & N. Retrenched workers are unwilling to take lower paid jobs. Lower incomes may also result in smaller rise in AE.
 - External influences also play an important role esp since we are very depend on the US economy for our exports.
 - Our dependence on electronics exports also subject our economy to the volatile cycles experienced by the electronics sector
 - Overall, the latter 2 are the main contributing factors because both account for 2/3 of our GDP growth momentum.

- Explain causes of **structural** unemployment in S'pore:
 - mismatch as the new industries attracted to S'pore are more skill-intensive and less linkages to the domestic economy are smaller
 - E.g. Pharma industry contributes 8% of manufacturing output but only 0.6% of employment while electronics generates 42% of manufacturing output and 30% of manufacturing employment
 - As S'pore's economy learns to cope with the wave of globalization and outsourcing, structural unemployment will also result.
 - E.g. As research in the biomedical sciences continues to face intense competition in producing generic drugs, the actual production of these drugs are likely to be carried out in cheaper locations like India and China. This will deprive job creation for the low-skilled workers in S'pore.
 - E.g. Competition also arises in our service sector such as port facilities.

- Evaluate which factors are most significant.
 - Structural unemployment is a growing problem.
 - According to the population 2000 census, abt 43% of residents are without a secondary education. Typically, the older workers will be the first to be retrenched and it will be difficult for them to be reemployed due to their low literacy level and also they are a bit too old to undergo retraining.

- Conclusion: S'pore's unN level very much affected by internal & external factors.