

## MACROECONOMICS AT WORK EXERCISE

### EMPLOYMENT AND UNEMPLOYMENT

**REFERENCE:** Robert Skeffington, 'Employers hold back', *Business Review Weekly*, 22–28 August 2002, pp. 40–1.

**CHAPTER RELEVANT TO THIS EXERCISE:** Chapter 8.

### OVERVIEW

The focus of this article is a model of the Australian economy at June 2003 which incorporates a range of assumptions about the rate of growth of a number of key aggregates and, hence, of Gross Domestic Product. The rate of economic growth will in turn affect the extent to which employers wish to employ labour (referred to somewhat loosely in the article as 'hiring decisions') and, hence, the *unemployment rate*.

Three scenarios are put forward (and summarised in the table) based on 'pessimistic', 'neutral' and 'optimistic' assumptions about rates of growth of key aggregates. The 'neutral' assumptions are those actually forecast by the economic modelling company (Econtech) responsible for the model. These are consistent with an unemployment rate that remains steady (i.e. virtually unchanged from the present).

The 'pessimistic' and 'optimistic' scenarios are based on assumptions with respect to aggregates such as business investment which are, respectively, lower and higher than those actually forecast. They are considered to be extremes though nonetheless possible, resulting in growth rates (annual percentage change in GDP) of 1.1 per cent and 5.3 per cent compared to the forecast rate of 3.2 per cent. The unemployment rate corresponding to each scenario is 5.7 per cent, 6.8 per cent and 6.3 per cent.

The point is made that the trend in employment (and unemployment) will depend on the way employers interpret changes (both in the domestic economy and internationally) and how they *react* to them in making decisions about the employment of labour. The article examines evidence about employers' actions and intentions. While the evidence is mixed, it tends to point to optimism rather than pessimism.

The aggregate unemployment rate will also be affected by trends in different sectors and other aspects of the labour market.

### QUESTIONS

1. Analyse the variation in the assumptions with respect to key aggregates that are contained in the 'pessimistic' scenario and compare them to the scenario that is actually forecast (based on 'neutral' assumptions). How are these then

reflected in GDP and the unemployment rate? (Refer to the table in the article, which sets out the different scenarios.)

2. Compare the forecast in the economic model (i.e. the scenario that results in steady unemployment) with that contained in the 2002–03 federal budget (also set out in the table).
3. On what basis is it suggested by the CEO of the recruitment firm TMP Worldwide that there will be ‘... an upturn in the employment market in the next three months.’?
4. Why is there concern about trends in the US economy?
5. Analyse the reference to Professor Bob Gregory’s point about the relative significance of ‘employment growth’ and ‘reductions in labour supply’.
6. What are the possible consequences for interest rates that are implied in the different scenarios?