

MICROECONOMICS AT WORK EXERCISE

LABOUR AND EMPLOYMENT

REFERENCE: ‘Year of ‘please apply’’ (by Don Stammer), *Business Review Weekly*, 18-24 November 2004, p. 30.

CHAPTER RELEVANT TO THIS EXERCISE: 13

CONTEXT

There are both *macro*- and *micro*-economic aspects to the employment of labour. At an aggregate level the demand for labour by all firms, compared to the total supply of labour by all individuals seeking work, will be reflected in the aggregate rate of employment, and *unemployment*. As this economy-wide supply and demand situation is disaggregated, to a *sector*, *industry* or *individual employer/employee* level, so the balance of demand and supply in *that* circumstance will have a more specific effect on the terms and conditions – and particularly the price (wage rate) – at which labour is employed.

This article refers (briefly) to some of both the macro- and micro-economic aspects of the contemporary labour market in Australia, in the context of the last two decades where (particularly since the early 1990s) the aggregate demand for labour has steadily run ahead of supply, and unemployment has fallen to half of what it was little more than a decade ago.

QUESTIONS

1. What is meant by the term ‘participation rate’ (trends in which are illustrated in the diagram accompanying the article)? What conclusions can be drawn from the opposite trends in this and the unemployment rate in the 1990s – again as illustrated in the diagram?
2. Explain the reference to ‘frictional’ unemployment. What is the underlying cause of such unemployment? Is it suggested that this is changing?
3. Explain the basis of the suggestion that ‘many companies are likely to experience labour shortages next year’.

4. What implications does a 'labour shortage' have for wage increases? Is this likely to be uniform across the economy?
5. Comment on the 'remedies' suggested for company managers to consider.
6. Explain how the observation in the concluding paragraph identifies the issue as both a *micro*- and *macro*-economic issue.