

Question	Evaluate the likely effects of an increase in the unemployment rate on workers and public finances. Refer to a country of your choice in your answer.
13	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application and Analysis (12 marks) – indicative content</p> <ul style="list-style-type: none"> • Understanding of unemployment/unemployment rate • Unemployment has increased from 7.1% to 8.5%/increase of 1.4 pp <p>Workers:</p> <ul style="list-style-type: none"> • Workers may fear losing their job and may increase savings, thus reducing consumption, aggregate demand and subsequently leading to a fall in real output and a fall in the price level • Workers may take jobs that are below their skill levels leading to underemployment • Workers who lose their jobs may spend a long time unemployed and become deskilled – they will be less employable and less attractive to employers • Workers who lose their job will see a reduction in earnings/living standards/ability to meet their basic needs • Social effects of unemployment – divorce, crime rate, health impacts • Long term effects of intergenerational unemployment <p>Public finances:</p> <ul style="list-style-type: none"> • As more become unemployed they may qualify for unemployment benefits. This will cause an increase in government spending • As people move from employment to unemployment, they may move from being income taxpayers to non-income taxpayers reducing income tax revenue • With higher unemployment consumer expenditure will fall resulting in a decrease in revenues from expenditure taxes • Higher unemployment suggests lower output, thus lower profits for private firms and lower corporation tax revenue for government • With lower tax revenue and higher government expenditure the fiscal position will worsen • Government may need to provide training to workers, or support to private firms – once again increasing spending and worsening fiscal position <p>NB Award a maximum of Level 3 for answers with no reference to a country in their answer</p> <p>NB Award a maximum of Level 3 for answers that consider only workers or public finances</p>

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4-6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7-9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10-12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p>Evaluation (8 marks) – indicative content</p> <p>Workers:</p> <ul style="list-style-type: none"> • Unemployment may fall again in short/medium-term, reducing the effects on workers and public finances • Some of those unemployed may be employed in the informal sector meaning incomes may not reduce, although impact on public finances may continue • Workers may have savings that can help reduce the effects of being unemployed <p>Public finances:</p> <ul style="list-style-type: none"> • Some increase in unemployment may be due to more capital-intensive output replacing workers, so the overall output may not fall, helping to maintain level of AD • Government revenue from corporation tax may not fall if the level of AD is maintained • May be possible to postpone or delay some government expenditure, so there will be less immediate effect on the fiscal deficit 		

	<i>Other evaluative comments:</i>	
	<ul style="list-style-type: none"> • Impact depends on the magnitude of the increase: 1.4 percentage points • Unemployment is a lagging indicator, so effects may not be immediately seen – SR vs LR arguments 	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.