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Introduction

We asked students to answer Section C of the Sample Question Paper for H060/02 Macroeconomics:

<http://www.ocr.org.uk/Images/170861-unit-h060-2-macroeconomics-sample-assessment-material.pdf>

The sample answers in this resource have been extracted from original candidate work to maintain their authenticity. They are supported by examiner commentary, both in annotations and in summary at the end of the document.

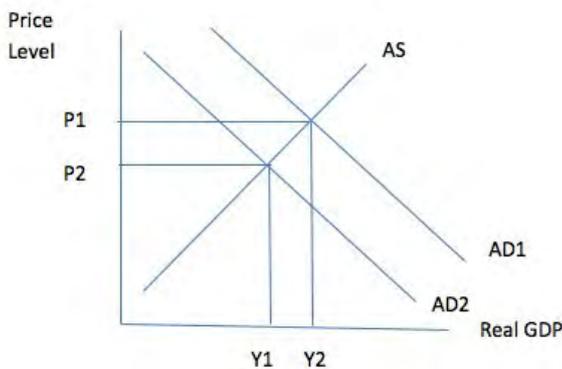
Please note that this resource is provided for advice and guidance only and does not in any way constitute an indication of grade boundaries or endorsed answers.

In 2014 the leader of the UK Labour Party, Ed Milliband, proposed a 'job guarantee' scheme for 18-24 year olds if the Labour Party were to win the 2015 general election. The scheme would see a subsidy paid to UK employers who guarantee a young person a job at the minimum wage for six months.

Evaluate, with the aid of an appropriate diagram(s), whether employment subsidies or the provision of youth training schemes is likely to be more effective in reducing the level of youth unemployment in the UK. [20 marks]

Candidate D

Employment subsidies could potentially be highly effective as firms would have an incentive to increase their workforce or be more labour intensive in return for a guaranteed payment. So, nationwide, this would lead to an increase in demand for labour, bringing about a shift to the right of the demand curve for labour, thus increasing the average wage for workers and along with this a reduction in unemployment (as long as the potential labour force have sufficient skills). This rise in employment will result in an increase in aggregate demand (as seen in the diagram below), the AD curve shifts to the right from AD to AD1, resulting in an increase in the price level from P1 to P2 and greater real GDP from Y1 to Y2. This increase in AD could stimulate investment by firms through the accelerator effect. Investment increases the capital stock of an economy (as long as it is net investment, rather than just replacing worn out capital) and so could increase the productive capacity of the economy, creating more job opportunities in the long run as well as initially.



In theory, this seems to work perfectly but it must be recognised that in real life, this might not be so for a couple of reasons. For instance, after 6 months why would firms continue to employ extra unnecessary workers and add to their costs if the government doesn't provide sufficient compensation? So in effect, what would happen is that after 6 months, there would be massive amounts of redundancies, taking us back to square one. Also, the rise in employment would depend on the total public expenditure on subsidies. Hence, as government debt is 80% of GDP how much could it afford to spend? Very little, so the fall in unemployment would be insignificant.

The diagram is relevant, and accurately labelled. It is linked to the analysis. There are already hints of evaluation by saying that the labour force need sufficient skills and that investment should not just be to replace worn out capital stock.

This analysis of the arguments against could have been taken further to be considered as good analysis. They could have explored the size of the subsidy and how firms use the subsidy.

Candidate D (cont)

Moving on to youth training schemes, these could also potentially be very effective in reducing the level of youth unemployment. These schemes would focus on providing prospective British employees with the necessary skills and expertise to work efficiently in the workplace. Consequently they would become more productive, thus allowing firms to experience low unit costs and be more competitive (domestically and internationally). In other words, the quality of labour would rise. Seeing this, firms would want to take on more workers (perhaps replacing capital), thus increasing demand for labour/right –shift of the demand curve. Equilibrium wages would increase along with quantity of employed workers, same as the previous policy. The key difference however, is that in this case the effect would be long lasting as even after 6 months, firms would want to retain workers, due to their high productivity. Moreover, according to the multiplier effect, the initial government expenditure (an injection into the circular flow of income) would lead to more spending (e.g. from newly employed workers) down the line. Thus this increase in government expenditure (G) and consumption (C) would lead to a rise in AD/right shift of the AD curve, meaning economic growth (increasing in GDP from Y1 to Y2) that would result in the creation of more jobs and a general increase in living standards of the locals in future, as shown in the previous diagram above.

Youth training schemes could also have the effect of preventing young people from losing their skills and motivation learnt during education or training – thus avoiding the difficulty of long term unemployment which will have much greater consequences for the government in the future.

Having said this, there are limitations to this policy. Firstly, as this measure requires financing by the government, it could be plagued by funding problems like the employment subsidy scheme, thus proving ineffective and insignificant. Especially if the government targets the wrong schemes or is subject to information failure and doesn't provide schemes which are relevant to young people. In addition, as the pattern of economic activity in this day and age is changing rapidly mainly due to improvements in technology, there could be government failure through imperfect information and numerous frequent cases of structural unemployment.

In conclusion, I believe that youth training schemes are more effective in reducing unemployment levels in the economy as they are sustainable and long term and also because they place an emphasis on productivity and efficiency of labour/factors of production, something which is craved by firms the world over as they seek to maintain a competitive edge over rivals.

The previous two paragraphs offer strong analysis of the case for youth training schemes to reduce youth unemployment. There is a clear chain of argument. There is another link to the previous AD/AS diagram.

Some evaluative points about the potential issues associated with youth training schemes.

The use of the word 'especially' suggests that a candidate is being evaluative.

The candidate refers to both employment subsidies and youth training schemes in their analysis and evaluation.

Evaluation occurs throughout the answer as the candidate recognises the relative effectiveness of both schemes; what they depend on and the long and short run effects. The strong analysis is two sided, both arguments for and against are tackled with clear chain of argument.

Valid comparisons are made between youth training schemes and subsidies, providing justification for why youth training schemes are more effective and this then leads to a reasoned and supported judgement on which will be the most effective in reducing the level of youth unemployment in the UK.

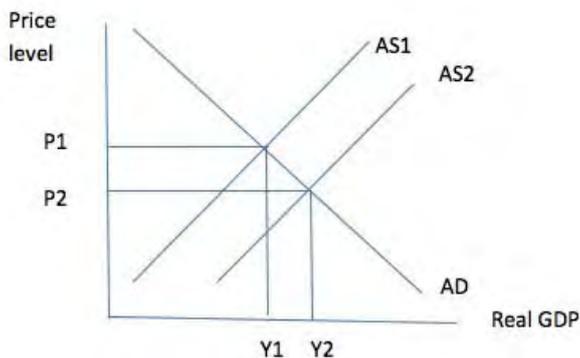
Level: 4

Mark: 19

Candidate E

Subsidies (a sum of money given by the government to the producers to lower production costs and therefore encourage producers to increase their output) and the provision of youth training schemes can both be effective in reducing the level of youth unemployment. An unemployed person is someone who is actively seeking work at a given wage rate and is willing and able to work but currently without employment. The provision of employment subsidies could be effective in reducing the level of youth unemployment because it can allow firms to increase their work force without an opportunity cost – although there is an opportunity cost for the government in providing these subsidies. As the diagram below shows, the subsidy will also result in an increase in aggregate supply as firms have the ability to higher more workers and so can increase their output, increasing the supply of goods in the economy.

An accurately labelled diagram which is relevant and linked to some analysis.

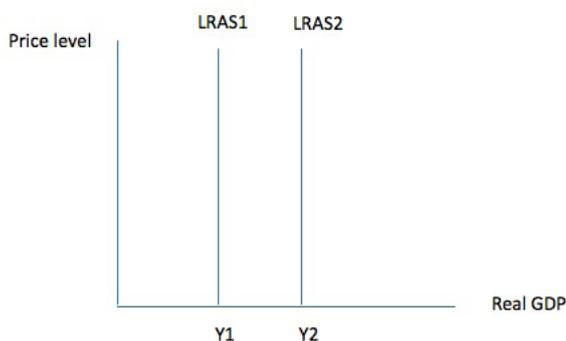


Employment subsidies would have an almost immediate effect on the level of youth unemployment, whereas youth training schemes would not necessarily make an immediate impact on the level of youth unemployment – which could, arguably, make subsidies on employment appear a more effective method of reducing unemployment.

Evaluation which compares the two schemes, although it isn't strong.

The provision of employment subsidies would hugely increase the quantity of goods produced because of the increase in the workforce. Although the provision of youth training schemes may not show or cause an immediate increase in the level of employment, it would help to solve the issue of labour immobility, occupational immobility – when people cannot easily move from one job to another). Youth training programmes are an example of supply side policies; the diagram below shows how they could increase long run aggregate supply and the potential output of the economy.

Good analysis of the benefits of employment subsidies – explanation of consequences including most of the links in the chain of argument and effective use of economic terms. There is a relevant diagram which is correctly labelled and linked to the analysis.



However, the reference to an increase in the workforce does not make clear why this might happen as a fall in unemployment does not in itself increase the workforce - just the utilisation of the workforce.'

They could also help to stop the occurrence of market failure. Both youth training programmes and employment subsidies can help to overcome market failure, however, the provision of subsidies can encourage increased consumption of products which can create ripple effect on to the rest of the economy, leading to further increases in employment, and an increase in aggregate demand which in the current economic situation, could be beneficial. However, training programmes have limited effects on the economy, at least in the short term.

Both subsidies and youth training schemes are discussed. They have made a judgement on which would be the most effective and are starting to weigh up both sides. So far the judgement isn't supported so good evaluation only.

Candidate E (cont)

Both these forms of government intervention are effective in reducing the levels of youth unemployment in the UK – however, it can be argued that employment subsidies are more effective (although it could be seen as an inadequate policy – lower taxes of businesses that employ more workers could be more effective) because it has an immediate effect and can cause a multiplier effect on the economy but the provision of youth training programmes also have greater long term effects on the level of employment. Subsidies create a high level of demand for labour, however, youth training programmes provide stronger incentives to find work, improve the skills that reduce occupational immobility and can encourage entrepreneurship therefore it can be concluded that the provision of youth training programmes is likely to be more effective in reducing the level of youth unemployment in the UK, particularly in the long run.

Level: 3

Mark: 12

Throughout the answer there is recognition of the short and long run effects of both policy measures.

In the final paragraph an alternative policy is mentioned but this isn't relevant to the question.

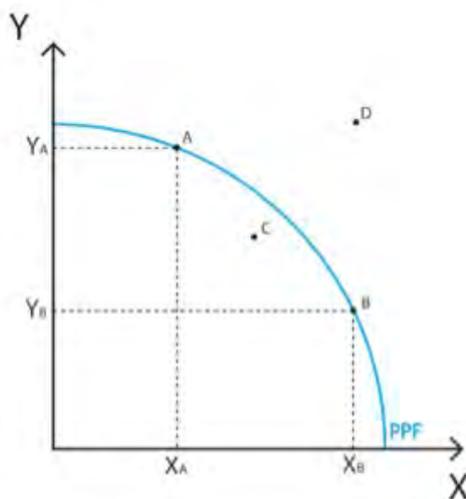
The candidate provides good analysis of the schemes, with correctly labelled and relevant diagrams, comparisons are drawn and a good evaluation is given at the end which has an unsupported judgement on which is the most effective.

Candidate F

Subsidies are a form of government spending; these are benefits given from the government to firms, in the form of cash or maybe tax reductions, for example a reduction in corporation tax.

The government fund provisions on youth training schemes to get the main aim of reducing youth unemployment. This idea of the government funding the training schemes would appeal to firms around the UK. Due to the firm not having to pay to put new young workers in youth training schemes, thus seeking the opportunity cost of producing more instead of spending time and money putting young workers into training. Also firms would be more likely to higher people who have already been given the sufficient training, because they would come into the company with new ideas and this could increase the productivity levels of the company and the main aim to reduce youth unemployment will begin to be achieved.

With the idea of the job guarantee system put in by Labour for 18-24 year olds, I think this would have an effect on short term unemployment, this would reduce the youth employment levels for that six months that they are in work for and we would see a decrease in the amount of structural unemployment because people will have the skills to do the job. However after those six months you will have people who will be looking past just the minimum wage and therefore will go looking for work else where and I think the UK would see and increase in frictional unemployment due to there being a greater amount of people in between jobs. Therefore I think we see a decrease in the short run and a slight increase in the long run.



The production possibility frontier shows how if you get more people into work then you would move from a place inside your PPF where you are under using resources and have a negative output gap to a place on or outside your PPF where you are using all factors of production and are becoming more productive as you have more people in the work place, producing more and be more efficient due to the increased training schemes at a young age.

The main problem with the job guarantee system is two things, one you have 16 and 17 year olds who will wondering where there training will be and will wonder why the don't get the same amount of training as 18 to 24 year olds, I think if the government invested in the 16 and 17 year olds offering training schemes and then giving them the job guarantee at the age between 18 to 24 you would see that the six months that they have at a said company will be far more productive and you are likely to see far more people staying on at there jobs for more than six months because the work they are doing is far more productive and this would not only see a decrease in short term youth unemployment but the long term would be effected.

Some initial confusion on what a subsidy is.

Limited analysis of how a subsidy will reduce youth unemployment as there are simple statements of the consequences.

Some slightly better analysis, just reasonable as there is a slightly stronger chain of argument on the consequences, but little economic terminology to support this.

Some understanding of the PPF and reasonable knowledge of how the negative output gap will be reduced by the implementation of youth training schemes. This could have been linked to a shift outwards of the PPF and a reduction in structural unemployment if skills are learned in such a way as to facilitate workers moving into new industries or labour markets. There is no reference to the movement along the PPF which shown on the diagram.

This doesn't take the discussion any further.

Candidate F (cont)

Employment subsidies given by the government to firms, this would lead to a greater incentive to employ 18 to 24 year olds because the firms see a cash benefit or a tax reduction if they do so, also there are added benefits to the firms for using this scheme because they could benefit from the 23 year olds who have come out the university looking for jobs and they could have new ideas that could increase the motivation and therefore the productive capacity of the company because you have new exciting workers in the workforce and this could lead to greater profits and then the firms see the reward of doing these schemes and are more likely to carry on with them and this would mean and even greater decrease in unemployment. Especially in structural and frictional due to people having greater skills and staying in work for longer.

With the UK's youth unemployment sitting at 15:90%, and now the fact that you can leave schools until 18 but you can at 16 if your going into a work placement, however you would see a high amount of 16 to 17 year olds who are sitting around getting benefits and not in placements or school so the government need to provide training for 16 to 17 year olds, also if we got 16 to 17 year olds into work you wouldn't only see a decrease in long term youth unemployment you would see a reduction in the negative externalities cause by the youth.

The reduction in youth unemployment would see an increase in the overall performance of the UK's economy due to having more people with greater skills and training and therefore an increase in the productivity of the economy. This all depends on certain factors going well. For example you need to see willingness for the unemployed to want to go into a training course or a placement at the minimum wage rate. The youth would need an incentive to get into the work like a guaranteed increase in wage rate if the work they produce in good. Overall I think the job guarantee system would work to decrease the short-term youth unemployment because it gets people into training or work for six months and this could then lead to a decrease in long-term youth unemployment. Therefore hopefully seeing an increase in the overall macroeconomic performance resulting in the four-macro objectives being achieves, mainly full employment meaning there is no involuntary unemployment. Therefore leading to greater economic growth and this would then result in lower rates of inflation.

Level: 2

Mark: 6

Reasonable analysis of an employment subsidy. The explanation has some of the chains of argument but it omits key elements and uses limited economic terms.

No economic analysis or evaluation here.

The evaluation is weak; it isn't underpinned by economic terms, concepts or models. The final conclusion doesn't initially address the question, but extols the benefits of a reduction in youth unemployment and veers away from it again at the end. However, there is reasonable evaluation that recognises what the success of youth training schemes depend on. However, these aren't compared to subsidies.

Overall, this is reasonable evaluation because there is some attempt to come to a conclusion, which shows recognition of the influencing factors.

Examiner's summary comments

Candidate D

The candidate refers to **both** employment subsidies and youth training schemes in their analysis and evaluation.

Evaluation occurs throughout the answer as the candidate recognises the relative effectiveness of both schemes; what they depend on and the long and short run effects. The strong analysis is two sided, both arguments for and against are tackled with clear chain of argument. A relevant and labelled diagram is included which is linked to the analysis. Valid comparisons are made between youth training schemes and subsidies, providing justification for why youth training schemes are more effective and this then leads to a reasoned and supported judgement on which will be the most effective in reducing the level of youth unemployment in the UK.

Candidate E

The candidate refers to **both** employment subsidies and youth training schemes in their analysis and evaluation.

Throughout the answer there is recognition of the short and long run effects of both policy measures. In the final paragraph an alternative policy is mentioned but this isn't relevant to the question.

The candidate provides good analysis of the schemes, with correctly labelled and relevant diagrams, comparisons are drawn and a good evaluation is given at the end which has a judgement on which is the most effective.

Candidate F

The candidate refers to **both** employment subsidies and youth training schemes in their analysis.

Some initial confusion on what a subsidy is and weak analysis of how a subsidy will reduce youth unemployment. Some understanding of the PPF and reasonable knowledge of how the negative output gap will be reduced by the implementation of youth training schemes. This could have been linked to a shift outwards of the PPF and a reduction in structural unemployment if skills are learned in such a way as to facilitate workers moving into new industries or labour markets. The evaluation is weak; it isn't underpinned by economic terms, concepts or models. The final conclusion doesn't initially address the question, but extols the benefits of a reduction in youth unemployment and veers away from it again at the end. However, there is reasonable evaluation that recognises what the success of youth training schemes depend on. However, these aren't compared to subsidies.



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