



Use the QR to view the 'Full Employment' Explainer, then answer the questions below.



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Full Employment

What is full employment?

1. Define full employment.

Full employment refers to a situation where there are as many people in jobs as possible, while at the same time keeping inflation low and stable

2. Full employment means that the unemployment rate is zero.

- True *At full employment, there is zero **cyclical** unemployment.*
 False *However, there is still some level of unemployment. In fact, some unemployment is normal in a healthy economy.*

3. Define the following types of unemployment:

- Cyclical unemployment

Cyclical unemployment is when unemployment changes with the ups and downs of the business cycle

- Structural unemployment

Structural unemployment is when the jobs available don't match the skills or location of people looking for work

- Frictional unemployment

Frictional unemployment is when people are out of work because they are changing jobs or starting to look for work after a period of not looking

4. Which types of unemployment are typically present or absent at full employment?

Type of unemployment	Present	Absent
Cyclical	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Structural	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Frictional	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Why is employment important?

5. Employment brings many benefits to individuals and an economy.
For example, individuals can earn an income and build their skills.

What are the benefits to society of having people in jobs?

Societal benefits:

-
- *Supports wellbeing*
 - *Contributes to the economic welfare of Australians*
 - *Brings new ideas and builds a more inclusive community*
-

How do we measure full employment?

6. Full employment can be measured by one single statistic.

- True
 False

7. Labour demand and labour supply are two important concepts in considering full employment.

i.) Which of the following best describes **labour supply**?

- The number of people in the working age population
 The number of workers that firms are willing and able to hire
 The number of businesses in the economy
 The number of people that are willing and able to work

ii.) Which of the following best describes **labour demand**?

- The number of people in the working age population
 The number of workers that firms are willing and able to hire
 The number of businesses in the economy
 The number of people that are willing and able to work

8. What do the following indicators tell us about the state of the labour market in the economy?

Labour market indicators

Underemployment rate	<i>This shows the share of people who have a job but want more hours. If the underemployment rate is high, this could indicate that the demand for labour from firms is weak relative to labour supply.</i>
Job ads, job vacancies, business hiring intentions	<i>This relates to labour demand. These show how many people businesses want to hire. If there are lots of job vacancies, this means employers are looking for a large number of workers relative to labour supply.</i>
Participation rates	<i>This relates to labour supply. If participation rates rose, this would lead to more people looking for work – which would represent more labour supply.</i>

9. The Monetary Policy Board looks at a range of labour market indicators to understand how close the labour market is to full employment.

- True
- False

How does the RBA support full employment?

10. The RBA has a dual mandate (two closely connected goals).

List these two goals and the tool the RBA uses to achieve them.

- The RBA's dual mandate is to keep prices low and stable, and support full employment*
- The RBA uses monetary policy (changing the cash rate) to achieve these goals*

11. What action would the RBA most likely take if the labour market is expected to be persistently above the level of full employment?

- Raise the cash rate to increase the level of aggregate demand
- Lower the cash rate to increase the level of aggregate demand
- Raise the cash rate to lower the level of aggregate demand
- Lower the cash rate to lower the level of aggregate demand

Part two: Extended responses

12. Let's say Australia has a relatively loose labour market.

Explain what is meant by a 'loose' labour market. In this situation, describe what the unemployment and underemployment rate would look like compared to a more balanced labour market.

- In a situation of a relatively loose labour market, the supply of labour is high relative to the demand for labour*
- In general terms, more people are wanting to work than firms wish to hire*
- As labour supply is high relative to labour demand, the unemployment rate is likely to be higher than usual. In addition, a loose labour market is likely to indicate a weaker economy more broadly*
- This could mean firms experience reduced demand for their goods and services*
- Rather than laying off staff, some firms may reduce their hours instead – which could mean the underemployment rate is higher than usual*

13. **Why does a higher cash rate tend to reduce firms' demand for workers?**

HINT: Focus on the impacts of a higher cash rate on household incomes and businesses, and then the overall demand for goods and services.

- *A higher cash rate will lead to higher interest rates across the economy*
- *Higher interest rates typically encourage households and businesses to spend less, which reduces consumption and investment, and therefore overall aggregate demand*
- *If demand for their goods and services falls, businesses may not need extra workers. Some firms may need to reduce the number of staff, or reduce the hours that staff work*
- *In this way, a higher cash rate will reduce aggregate demand – and the overall demand for labour*

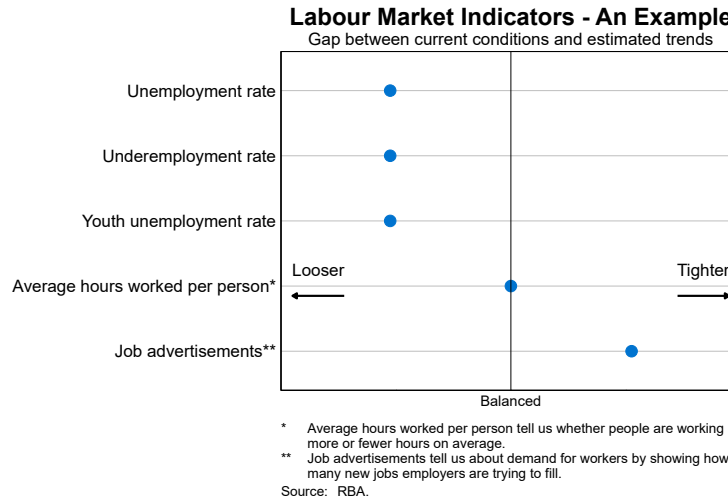
14. The following graphs represent labour markets for Economy A and B.

For each graph:

Describe the balance of the labour market – would it be loose, balanced or tight? Provide a reason for your answer.

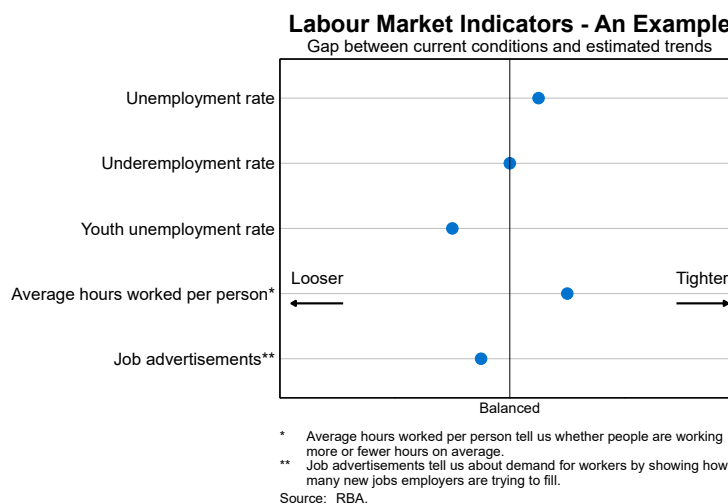
HINT: each indicator is one piece of the puzzle. Try and connect the pieces to get an overall sense – what do the majority of indicators suggest?

Economy A:



Relatively loose. At this point in time, the majority of labour market indicators, such as the unemployment and underemployment rate, show a loose labour market.

Economy B:



Relatively balanced. At this point in time, labour market indicators are a little mixed. Some point to a slightly tight labour market while others suggest a slightly loose market. Taking account of all the indicators together, they suggest the economy is likely somewhere close to balance.