

Student evidence was provided for cause 1 - impacts of cuts in government spending and cause 2 – increase in minimum wage using AS-AD models with recessionary gap and labour market models.

### Compare and Contrast (Cause 1 & Cause 2)

As we can see, due to both events, there will be an increase in the level of unemployment. This is shown on all four models above. In the case of the first event, when the government cut spending by \$1.5 billion on public sector workers, the jobs cut from the public sector were the people that became unemployed in the short term. These job cuts are shown on graph one which is an ASAD model. This is because it shows a decrease in government spending, which decreases aggregate demand. This is shown on the graph by 'AD' shifting to the left to 'AD1'. We know this is going to cause an increase in unemployment as this will shift 'Y' to 'Y1' which therefore causes the recessionary gap to increase from 'Recessionary Gap' to 'Recessionary Gap 1'. According to 'Te Kawanatanga O Aotearoa', there are 65,283 people that worked in the government sectors that were getting job cuts. This data was from 2022, before these job cuts were introduced.<sup>3</sup> As the government is asking for 6.5% to 7.5% of these sectors to cut jobs, this means that we can average that out to 7%. This means that very roughly there will be 4,570 jobs cut from these public sectors. This means that almost 5,000 will lose their jobs in the short term. It is important to note however, that these numbers are rough calculations and the number could be roughly more or less. We can also see how immediately, there will be an increase in the unemployment shown on graph two. This is due to the decrease in the demand for labour from DL to DL1. Looking at the second event, we can see that due to the increase in the wage rate, there will be an increase in the level of unemployment. Comparing this to graph three, we can see that on this labour market model, it shows us how the minimum wage will have an immediate effect on the level of unemployment. This is due to the increase in the minimum wage, shown by an increase from 'W<sub>min</sub>' to 'W<sub>min1</sub>'. This shift will be immediate as there will be these job cuts due to producers not being able to pay them this new wage. This is because there is less demand for labour. This is shown by the decrease in 'Q<sub>DL</sub>', shifting from 'Q<sub>DL</sub>' to the left to 'Q<sub>DL1</sub>'. This means that the level of employment will decrease immediately. There will also be an increase in the level of involuntary unemployed as many people who didn't want to work will now want to at this new minimum wage. This is shown on graphs by an increase from 'Q<sub>SL</sub>' to 'Q<sub>SL1</sub>'. According to the Ministry of Business, there are currently between 80,000 and 145,000 workers in New Zealand on the minimum wage. We are unable to know how many jobs will be cut like the other event however. With that, there are many more workers on minimum wage, rather than in the government public sectors. This means that in this short term, it is very hard to know which event will cause more unemployment. Contrasting this into the long term, we can see that in the first event, there will be a slight increase in the employment rate as workers that were cut from the public sector roles might take lower paying jobs to stay in that profession. In theory, it evens out to around 50% of people that were cut from their jobs in this sector will take lower paying jobs, and the other 50% will find other fields of work for a higher wage rate. This is shown on graph two which is a labour market model. This is shown

<sup>3</sup> <https://www.publicservice.govt.nz/research-and-data/workforce> - accessed on 17/06/2024

in the long term when the new 'QDL' and the new 'QSL' both shift back to a new equilibrium with a lower wage rate. In the short run, this level of involuntary unemployment will be caused due to the sticky wage theory. The sticky wage theory means that many workers are bound to contracts and salaries. This means that the wage rate will not fall in the short term, as it takes a longer period of time for these sticky wages to end. However, in the long run, this wage rate will decrease, shown by 'W' to 'W1'. This is shown on the graph as 'QL1'. Applying this to our previous number, according to the theory, out of the 4,570 job cuts, many of them would return and become employed again by the public sectors. This was shown in the public sector of the Ministry of Transport with 120 jobs that are expected to be cut by the end of 2024. This shows how in the long run, the first event will not be as significant for the unemployment level as it was in the short term. Compared back to the second event, we can see that in the long run, there may be a small increase in the employment rate due to a potential shift in aggregate demand. Looking back at graph four, the ASAD model shows us how there is only a decrease in the aggregate supply, shown by a decrease from 'AS' to 'AS1'. This is due to an increase in the cost of production for producers. This is shown to have a decrease in the level of unemployment by an increase in the recessionary gap between, 'Recessionary Gap' to 'Recessionary Gap 1'. However, in the long run, there is potential for an increase in consumption spending. This is due to minimum wage workers having more disposable income. This would cause a slight increase in 'Y'. However, this shift would not be as significant as the shift from the aggregate supply. Therefore, we can confidently say that in the long term, the government spending cuts will not have as great of an effect on the level of unemployment. Hence, the increase in the minimum wage will have a more significant effect on the level of unemployment.

### Compare and Contrast (Groups in Society)

Both public sector workers and minimum wage workers will be negatively affected by this increase in the level of unemployment. We can firstly look at a highly skilled manager that worked for a public sector who will become unemployed. This is shown on graph two where on the labour market model it shows 'QL' decreasing to 'QDL'. This shows that they will be cut due to the decrease in derived demand. Looking at this person, we can see that as they are highly skilled, they are more likely to be at an older age than the minimum wage worker. According to the New Zealand Public Service Commission, the average age of a public sector worker is 44.8 years old, with the average age of a public sector manager being over 50 years old.<sup>4</sup> Compared to the minimum wage workers, as per the website Employment New Zealand, the average age is around 27, with 88% of the minimum wage workers between 20 and 35 years old.<sup>5</sup> This shows that for our highly skilled manager, they will have had access to tertiary schooling of higher levels. This means that they might have gone to university. This proves that this person is a highly skilled worker. Contrasting to the minimum wage worker, we know that they are going to be unemployed due to graph three. This graph shows us that due to the minimum wage increase from 'Wmin' to 'Wmin1', the 'QDL' shifts to 'QDL1' and the 'QSL' shifts to 'QSL1'. This means that the level of involuntary unemployment increases by a large

<sup>4</sup> <https://www.publicservice.govt.nz/research-and-data/workforce-data-diversity> - accessed on 19/06/2024

<sup>5</sup> <https://www.workrisenetwork.org/features/who-low-wage-workforce> - accessed on 19/06/2023

amount. With our minimum wage worker being cut, as they are younger, they may not have had the opportunities to attend a university for tertiary education. Therefore they may be less skilled than the public sector manager. In comparison to the public sector manager, due to them most likely being older, this means that there is a higher chance of them having a family. This is important as they have been cut from their jobs, therefore they may be able to rely on a family member (eg, partner) for monetary aid. As for the minimum wage worker, due to them most likely being younger, they are more likely to be a single earning household. This means they are less likely to have a family member (eg, partner) to help provide an income. This means that in the short term, the highly skilled manager will be more likely to be able to not be in financial hardship due to having another income to rely on immediately. However, for the minimum wage worker, they may find it harder in the short term as their stream of income is cut and they may not have another source of income to rely on. This is shown for the highly skilled manager on graph two, where they are not on a minimum wage. We know this due to the graph being able to shift from 'Wmin' to 'Wmin1'. Looking forward into the long term, the highly skilled manager is more likely to have more options in finding work for their future. This is firstly because they are highly skilled with a higher level of education. This means that they are going to have a wider range of options to choose from. Contrasting this to graph two, we can see that due to their not having a minimum wage for the highly skilled manager, they may be able to take a lower paying job in the same sector. We know this as graph two shows up in the long term, the 'QDL' will increase and form the new 'QL1'. With this, it means that our highly skilled manager can take a lower paying job to still work in their public sector. However, with their higher skilled training in politics, they may be able to find other jobs involving government positions. As for the minimum wage worker, in the long term, as they are younger, they may have the ability to attend a university to gain higher education and become highly skilled. However, this would be a harder process as they may struggle to find employment with the increase in the minimum wage. This is shown on graph three, when we see that the level of involuntary unemployment has increased by a significant percentage. This is due to 'QDL' shifts to 'QDL1' increasing the involuntary unemployment gap. Along with this, the 'QSL' shifts to 'QSL1' also increasing the involuntary unemployment gap to a more significant scale. This means that in both the short and long term, the involuntary unemployment gap has increased from between 'QDL' and 'QSL' to 'QDL1' and 'QSL1'. This means that not only producers are cutting minimum wage workers, there are also people that were previously voluntarily unemployed due to the lower minimum wage, now wanting to work at this higher wage rate. Therefore, as a result of both events, it will be easier for the highly skilled manager to be re-employed, rather than the minimum wage worker. This will be more stressful for the minimum wage worker because they will be longer unemployed than the skilled manager who will find it easier to find another job even though it might be at a lower wage. Also, the skilled manager who are married will have family to rely on for an income while the younger worker may not and this will also add more stress on the younger worker on minimum wage.

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**Grade: Excellence**

For Excellence, the student will analyse unemployment comprehensively, integrating economic concepts and models.

This involves:

- Comparing and/or contrasting the causes of changes in unemployment.
- Comparing and/or contrasting the impact of changes in unemployment on various groups of New Zealand (NZ) society.
- Integrating changes shown on economic models into detailed explanations.

The student has comprehensively analysed the causes of changes in unemployment. Economic concepts have been used, and changes shown on the AS-AD model and Labour Market model have been integrated into the explanation (1).

The causes of change in unemployment have been compared and contrasted in a 'greater than/less than' sense in the analysis by providing estimated numbers for the job losses due to the two events and explaining the impacts over the short and long term (2).

The impacts of the changes in unemployment on various groups of NZ society have been explained in detail. The groups discussed were public sector skilled managers versus minimum wage workers (3).

The impact of the changes has been compared and contrasted in a 'greater than/less than' sense. The language of the Labour Market model along with economic concepts, is integrated into the explanation. (4)