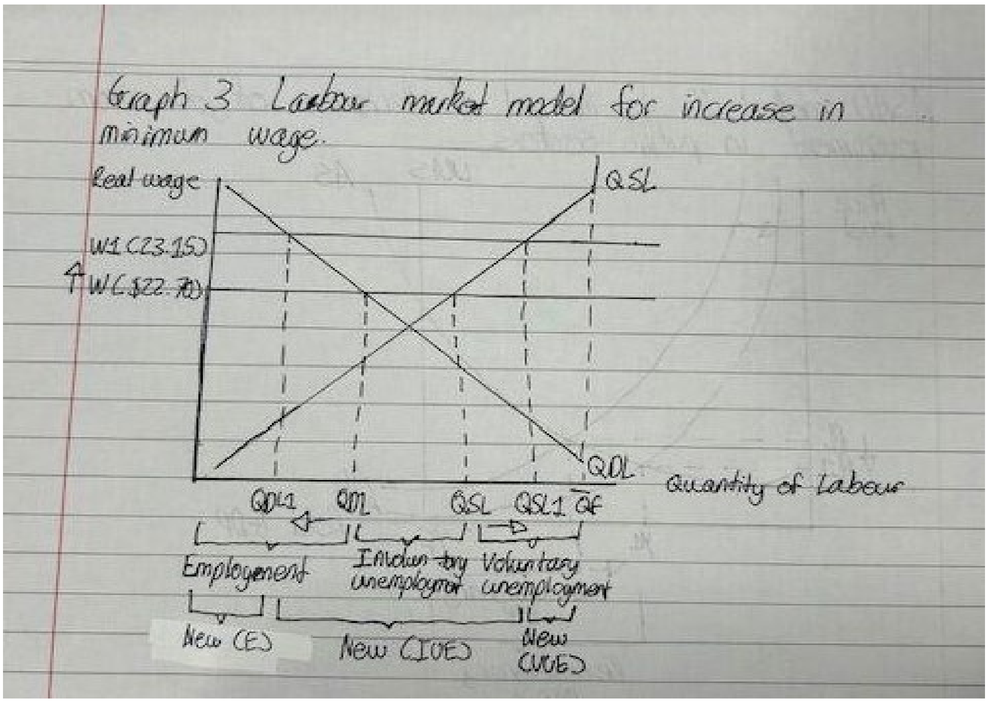
Student evidence was provided for cause 1 - impacts of cuts in government spending using the AS-AD model with recessionary gap and labour market model.

***Cause 2* - Explanation**

In cause 2 there is an increase in the minimum wage from $22.70 to $23.15 an hour. There is 59, 500 people that are on the minimum wage meaning that this affects all of them. Other than workers, it also affects businesses as it increases their cost of production as they now have to pay staff higher rates. This cause can lead to unemployment due to an increase in the cost of production and firms are unable to employ staff or an increase in income and consumer confidence for those that are still employed.

Labour market model



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Explanation

On the graph above the old minimum wage ($22.70) has increased to W1 to ($23.15). This means that employment has decreased from QDL to QDL1 as the minimum wage has increased, this is because it has become more expensive for businesses and firms to supply workers as the minimum wage has increased. Involuntary unemployment has increased from the gap between QDL to QSL to now QDL1 to QSL1. This is because of the higher wage rate more people are willing to work because they will be paid more increasing involuntary unemployment. Involuntary unemployment is those who are willing and able to work at the current wage rate but do not have a paid job. Because of this, voluntary unemployment decreases as now people move to being involuntarily unemployed. We can see this from the gap decrease from QSL to QF to now QSL1 to QF. Voluntary unemployment are those who are not willing and able to work at the current wage rate and do not have a paid job. This increase in minimum wage means more people that are unemployed are now wanting to work because it is a higher wage. However, firms cannot supply the same amount of workers that they had before because of the higher wage they cannot pay the same amount of workers with their current revenue. Therefore there is a surplus of labour as QSL has increased

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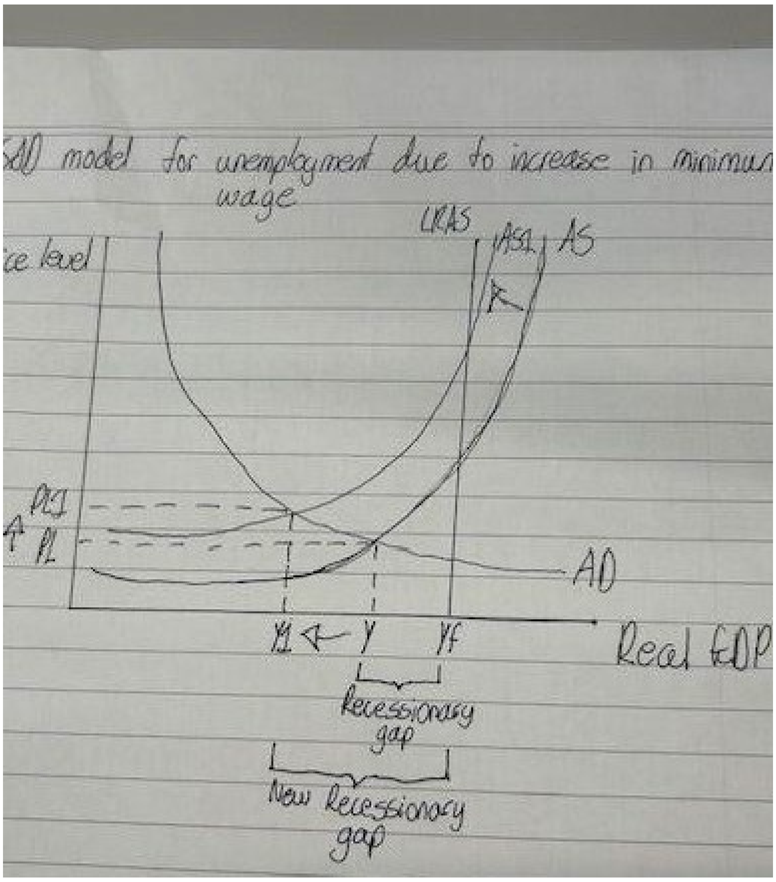
ASAD model



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Explanation

In this situation where there is unemployment due to the increase in minimum wage it means that the aggregate supply (AS) shifts to the left as it is a decrease from AS to AS1. This 1 would mean that Y shifts and decreases to the left to Y1 which decreases Real GDP. This then increases the recessionary gap to a new recessionary gap as more people are now unemployed as firms cannot employ the same amount of workers as before the minimum wage increase because it has increased their cost of production making it more expensive to produce goods and services. Therefore the price level increases as well as it increases because supply decreases firms increase prices to maintain profit margins to decrease output. However, Long run aggregate supply would not shift even though people become unemployed because they are still a part of the labour force. The recessionary gap is the distance between the actual output the economy is producing and the full employment output is called a recessionary gap. The recessionary gap increases (see model for new recessionary gap) as more people are now unemployed because the minimum wage rate has increased which means it is now more expensive for firms to employ workers and increases their cost of production forcing them to lay off staff.

Compare and contrast Cause 1 with Cause 2

In this case with the reduction in government spending from cause 1 and the increase in minimum wage from cause 2, I think that cause 2 has more of an effect on New Zealand. This is because more people are affected by if the minimum wage increases or decreases as 59,500 thousand people are on minimum wage in New Zealand according to this 3 government document.[1] But the amount of people losing their jobs who work in the government public sector is only 6,135 which is still significant but does not affect as many people[2]. With 700 of these cuts coming from the ministry of education which you can see in the second graph. The increase in minimum wage will mean that those 59,500 people will earn a higher income and they will be able to increase their consumption and contribute more to the economy and real GDP. However, looking at graph 4 (ASAD model) we can see that QS decreases as it is now more expensive to employ the same amount of employees for firms because they have an increase in the cost of production due to the increase in minimum wage. This means that some minimum wage workers will lose their jobs because the firms cannot afford to hire them anymore. Looking at graph 3 (labour market model) we can see that there is an increase in involuntary unemployment as QDL and QSL shift further apart from each other to QD1 and QSL1 making the gap larger of involuntary unemployment. This means that as the minimum wage has increased more workers want to work at the given wage rate but there is not even jobs for them to be employed because firms cannot afford to hire them as it increases their cost of production. Therefore the short-term effects of an increase in minimum wage is that there will be layoffs or/and reduced hiring. These short-term effects would mainly apply to youth workers and entry-level positions as they are most likely to earn minimum wage. The long-term effects of the increase in minimum wage would be higher earnings for those who are employed and they will increase their consumer spending which boosts economic growth. Another long-term effect would be a shift to higher-skilled jobs, as firms are paying workers a higher income they will want them to have better skills to justify the higher wage with more productive workers. 3

I think that cause 1 has less of an effect than cause 2 because it affects a smaller group of people. For example, 6,135 people are losing their job due to government spending cuts to public sectors in order to save money compared to all minimum wage workers. On graph 1 (ASAD model) we can see that AD decreases and shifts to the left to AD1 which is due to the fact those workers in the public sector are being let go. This means that there is less consumer spending due to having a decreased income or none at all which can affect businesses as less of their goods and services will be bought and consumed affecting their revenue and overall real GDP will decrease. In graph 2 (labour market model for the ministry of education) we can see that from the decrease in QDL as there is less demand for workers, overtime the sticky wage theory will come into play as immediately they will not be let off due to contracts and agreements which means that they will still be working for a little bit or get some sort of compensation as a result of the government and public sector making those jobs redundant. The short-term effects of this is loss of income which again decreases consumer spending. Due to a loss of income, it will be harder for those who lost their jobs to afford the same things as they did before which increases government spending if they have to go on an unemployment benefit or social services costs to help them out. The long-term effects of these people losing their jobs is that their skills might deteriorate as long periods of

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[1] https://www.mbie.govt.nz/dmsdocument/28018-minimum-wage-review-setting-the-2024-rates-proactiverelease-pdf#:~:text=The%20current%20adult%20minimum%20wage,population%20in%20this%20age%20range

[2] https://www.rnz.co.nz/news/political/513456/how-many-public-sector-roles-are-going-and-from-where

time without a job can decrease your skills and knowledge because you are not employed any more. Another long-term effect is that it can lead to long-term debt to those who took out a long to help them out when they were unemployed which can cause financial instability. Therefore even though 6,135 people are losing their jobs due to cuts in government spending in the public sector, 59, 500 people are affected by the increase in minimum wage whether they earn more money or lose their job which is more significant. Those who are losing their jobs in the public sector probably also have more skills and higher qualifications making it easier for them to find another job, whereas those on minimum wage probably have less skills and knowledge making them less valuable and harder to find a job which impacts them more.

Compare and contrast Groups in society discussion
The first group that I will be comparing is a lower-skilled minimum wage worker who has lost their job due to the increase in minimum wage. The second group is a higher-skilled manager who lost their job from a public sector role. Straight away we can realise that in the 3rd graph (labour market model) there is a big increase in involuntary unemployment as the minimum wage has increased so more people want to work at that current wage rate. However, the increase in minimum wage increases the cost of production for firms causing them to spend more on wages instead of producing more goods and services and therefore they might have to cut staff or freeze hiring to maintain production margins and not increase their cost of production. In this situation, a lower-skilled worker on minimum wage is more likely to be someone younger in high school or perhaps university and looking for a part-time job. This means that they do not yet have the skills to apply for any job. This worker is also not likely to have a family yet as they are younger and probably still in school which means they most likely need to only provide for themselves. If we compare this to the higher-skilled manager who lost their job in the public sector, they have lost their job due to the government making spending cuts. If we look at Graph 2 (labour market model) we can see that the demand for workers has decreased which means there is now involuntary unemployment as those people who lost their jobs still want to work at the wage rate they were on before but are unable to get a paid job. The higher-skilled manager is more likely to be someone older with more experience which makes them more skilled. If they are older it is likely that they have a family to provide for or contribute towards meaning their job is very important. It also probably means that they are closer to retirement as they are older and have more savings. Therefore it means that it could be easier for them to find a new job as they have more experience and skills compared to someone who is younger with less skills and experience. 2 2

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The short-term effects of a lower skilled minimum wage worker who lost their job is straight away loss of income, this means that it could be harder for them to pay for their education or accommodation and will have a financial impact. This financial impact could cause a lot of stress and have negative effects on their mental health. The long-term effects of this is it can create gaps in their resume and make it harder to find a job if they are unemployed for a long period of time because it has been a long period of time since they have last worked. A short-term effect on someone who is highly skilled and a manager is similar to the other example as immediately they will experience loss of income which can affect not only them but their family and have strained relationships due to financial troubles. The long-term effects of them losing their job could be entering or having a large financial debt because they had to borrow money from the bank from their time being unemployed and have a large 2 4

amount to pay back. It could also be harder for them to find a job afterwards if they have been unemployed for a while as their skills could have deteriorated from not working for a certain period of time which means their skills have decreased.

Grade: Merit
For Merit, the student needs to analyse unemployment in depth, using economic concepts and models. This involves: • providing a detailed explanation of causes of changes in unemployment using economic models • providing a detailed explanation of the impacts of unemployment on various groups in New Zealand society. The student has analysed, in depth, the causes of changes in unemployment. The student has explained in detail the causes of changes in unemployment using models. Cuts in government spending were explained using the AS-AD model with recessionary gap and Labour Market model. An explanation of the recessionary gap was included. An increase in the minimum wage was also explained using the Labour Market model and the AS-AD model with a recessionary gap. An explanation of why E, IU and VU would change was also included for both causes. (1) A detailed explanation of the impacts of changes in unemployment on low-skilled minimum wage workers and higher-skilled managers over the short and long term has been provided. (2) The impacts of change in unemployment on low-skilled minimum-wage workers versus highly skilled managers in the short term have been compared and/or contrasted. The Labour Market models were referenced, but changes on the models were not integrated into explanations. (4) To reach Excellence, the evidence would include a more comprehensive comparison of the causes of changes in unemployment using the models. An explanation of why one cause is greater than the other was included by referencing the number of affected workers, and models were used. However, adding a minimum wage line to model 2 (Labour Market model for the first cause—cut in government spending) would have provided the opportunity to include a more detailed comparison of the size of the impacts on IU and VU, using the model. (3)