

Unemployment and monetary policy essay sample

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Nowadays, some of the macroeconomics and policy makers assume that unemployment and inflation are too bad, because both of this factor able to reduce social welfare (Ruprah & Luengas, 2011). The growth and shocks in unemployment may be able to reduce of this deregulation of monetary policy that has been followed with high volume of growth (Eatwell, 2000). Among industrial and developed countries, long-term trends in unemployment since the world war show a distinct break in 1970s and up to that time unemployment rates were at historically low level. According to Marglin and Schor (1990), the low rate of unemployment is not reasonable to discuss about the full employment or 'golden age' because the capitalist economic system has grew even faster than expected in the early stage. The most attracting development issue in developing country in the recent modern economic is the lasting unemployment rate.

The unemployment rate can be defined as the number of people actively looking for a job divided by the labour force. Changes in unemployment depend mostly on inflows made up of non-employed people starting to look for jobs, of employed people who lose their jobs and look for new ones and of people who stop looking for employment. In almost any economy at almost any time, many individuals appear to be unemployed. That is, there are many people who are not working but who say they want to work in jobs like those held by individuals similar to them, at the wages those individuals are earning. Unemployment occurs when a person is available to work and seeking work but currently without work Graduates are unable to secure job after graduating from respective universities and college universities.

Graduate unemployment is unemployment among people with an academic degree.

Unemployment rate is the proportion of unemployed population to the total population in labour force. This rate measures the percentage of unemployed population in the labour force. According to producer of national statistics, the labour market in Malaysia in October 2012 was stated that the unemployment is 12, 473. 9. The unemployment rate remained at 3. 2%. The unemployment rate in October 2012 remains unchanged at 3. 2 per cent from the previous month. However, a slight increase of 3, 200 persons was recorded by the unemployment, bringing to a total of 417, 100 persons, while the number of employed persons declined by 79, 300 to 12. 47 million persons. Meanwhile, the seasonally adjusted unemployment rate stood at 3. 5 per cent in October 2012. A comparison with the same month of the previous year showed that the unemployment rate was higher by 0. 2 percentage point from 3. 0 per cent in October 2011. The unemployment is classified into two that is the actively unemployment and inactively unemployment.

The actively unemployment include all persons who did not work during the reference week but were available for work and actively looking for work during the reference week. The inactively unemployment persons include the following categories: a. Persons who did not look for work because they believed no work was available or that they were not qualified. b. Persons who would have looked for work if they had not been temporarily ill or had it

not been for bad weather c. Persons who were waiting for result of job applications d. Persons who had looked for work prior to the reference week.

Literature review

There is a large amount of economic literature investigating unemployment cause negative impacts of economic growth and productivity (King & Welling, 1995; Berument et al., 2006; Moreno-Gablis 2006; Tsaliki, 2007; Schubert, 2011). However, studies concentrating on the relationship between unemployment and monetary policy have not been studied deeply by most researchers. Even the unemployment rate and economic growth as well as the productivity problem often arise together, but most of literature has traditionally treated them separately. Furthermore, there are also literatures concentrating on the issues of inflation, macroeconomics and monetary policy (Clarida et al., 2000; Carlstroam et al., Besley & Sheedy, 2010; Sachside, 2011).

Besides that, according to Alexopoulous (2007) studied the relationship between monetary business cycle and unemployment. Recent study by Mussard and Philippe (2011) has investigated the analytical link between the unemployment, monetary policy how individuals share the value added in an economy. This connection relies unemployment is depends on various type of macroeconomics characteristic. In practice, in policy making circles, inflation and unemployment is an indicator which should be given priority (Ruprah & Luengas, 2011).

There are also some studies related with monetary policies conducted for Malaysia, such as Sriram (2002), Tang (2006), Kuang (2008), Mohd Azlan

Shah and Fisher (2010); and Raghavan et al., (2012). These studies have focused on monetary transmission and the empirical findings shows that monetary policy has direct effect on Malaysia's macroeconomics performance. However, among these contributions, the issue of whether or not monetary policy effects on unemployment has been neglected in Malaysia. Monetary Policy

Expansionary Monetary Policy is powerful, quick and usually effective. Lower interest rates allow families to borrow more cheaply to buy what they need, like cars, homes and consumer electronics. This stimulates enough demand to put the economy back on track. Low interest rates also allow businesses to borrow for less, giving them the capital to hire new workers to meet rising demand. Fiscal Policy

However the monetary policy doesn't work, then fiscal policy is usually demanded. This means the government must either cut taxes or increases spending to stimulate the economy. Some steps which can be taken by the government sectors or world bodies in reducing the level of unemployment are discussed below:- 1) Betterment of the Employment Exchange:

Employment exchange is a mere formality in many countries, so it is important that employment exchange offices synchronize correctly and quickly with private companies which provide the maximum job opportunities. Government should grant more funds and powers to its employment exchange terminal.

2) Providing Better Educational Facilities to Citizens:

Education creates employment, so a country with good educational facilities will have less unemployment.

3) Elimination of Child Labor:

When underage children start making money, they will look for more options to make money. Schools are made for children and vice versa. Elimination of child labor can definitely help people to go for better options.

4) More Job Fairs:

Government should initialize and create more job fairs which form a bridge between companies which have employment opportunities and people who need employment. The solution for unemployment is, obviously, to create new jobs and create more job fairs. Usually, the healthy economic growth rate of 2-3 % is enough to create the 150, 000 new jobs needed to keep unemployment from rising. When unemployment creeps above 6-7% and stays there, it means the economy isn't strong enough to create sufficient new jobs without help. 5) Increase in Government Grants to Public Sector Companies: Public sector companies are also known to create hundreds of job opportunities. So an increase in grants to these companies will imply better functioning which will eventually help people who are unemployed.

6) Improving Pay Scales to Reduce Unemployment by Choice: Many people choose to be unemployed to do things they like or to avoid working on low pay scales. Improving pay scales in government and public sectors will give fewer options for people to stay unemployed by choice.

7) Legalizing Many Unconventional Methods of Earning:

There are many modes of making money which are considered illegal in many places but are done secretly. Good examples of it are prostitution, gambling and betting. Legalizing these activities will create more employment, taxes for the government and would reduce exploitation. Some other steps like making an independent Ministry of Employment and better tax transitions will also help decreasing unemployment to some extent. All these steps would definitely help the government to reduce the level of unemployment. Another way to solve the unemployment problem is local-based companies involved in the human capital development programme, called Kerjaya, to support the growth of the East Coast Economic Region (ECER) projects.

According to Datuk Seri Adnan Yaakob, who launched Kerjaya said that the programme was to create a group of skilled and trained workers, thus reducing the unemployment rate among fresh graduates. Kerjaya is made up of the Graduate Placement Programme (GPP), Employee Placement Programme (EPP), Graduate Training Programme (GTP) and Skills Training Programme (STP). He also said that 200 graduates had been selected for the GPP programme which started last October, and they would be taken in on a two-year contract with the opportunity to be absorbed as permanent staff at the end of their tenure. Under the programme, the participants will be given on-the-job training and receive a monthly salary of between RM1, 200 and RM1, 500, to be jointly paid by the ECER development council and participating companies. As for the EPP, he said the ECER development council would help partner companies find part time, contract and

permanent staff from a pool of retrenched and unemployed blue-collar workers affected by the sluggish global economy. (New Straits Times, 21 December 2009) Author: Geoff Riley, Eton College, sept 2006