Example: Explain why weaker demand conditions in the UK economy are likely to lead to rising unemployment (10 marks)

**Definition** - Unemployment is defined as a situation where people are out of work but are willing and able to work and actively seeking employment.

Weaker demand conditions mean that there is a fall in aggregate demand in the economy. AD is defined as total demand for all goods and services produced in the domestic economy at a given price level during a given time period. AD is made up of C+I+G+X-M with C making up the biggest share of AD with 65% of AD. So if consumption falls it could lead to a fall in AD if there is no increase in any of the other components.

If there are weaker demand conditions, for example there is a fall in consumer confidence or business investment falls, shops and businesses will find that stock levels start to build up and they will order less from suppliers (so what x1). As a consequence, they will find that profit levels start to fall so they lay off workers (so what x2). As output starts to fall, unemployment starts to rise and employment levels start to fall (so what x3). Due to the fall in consumption the AD curve shifts from AD1 to AD2 with a subsequent fall in Real GDP and a rise in unemployment from Yf to Y2. (So what x4)

As unemployment rises, there is a further weakening of demand conditions as job security weakens and consumer confidence falls (so what x5). As a consequence, spending starts to fall and there are negative multiplier effects occurring which leads to further falls in AD and further increases in unemployment (so what x6)