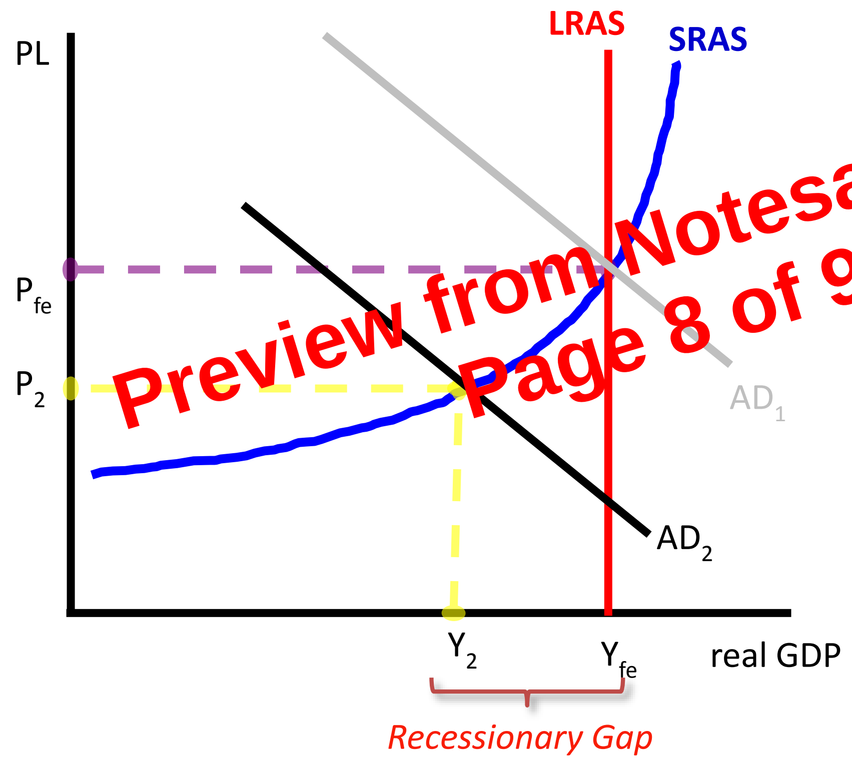
Example: Explain why weaker demand conditions in the UK economy are likely to lead to rising unemployment (10 marks)

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)**