

[Unemployment in a Commodity-Rich Economy: How Relevant Is Dutch Disease?](#)

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We examine the relevance of Dutch Disease through the lens of an open-economy multisector model that features unemployment due to labor market frictions. Bayesian estimates for the model quantify the effects of both business cycle shocks and structural changes on the unemployment rate. Applying our model to the Australian economy, we find that the persistent rise in commodity prices in the 2000s led to an appreciation of the exchange rate and fall in net exports, resulting in upward pressure on unemployment due to sectoral shifts. However, this Dutch Disease effect is estimated to be quantitatively small and offset by an ongoing secular decline in the unemployment rate related to decreasing relative disutility of working in the non-tradable sector versus the tradable sector. The changes in labor supply preferences, along with shifts in household preferences towards non-tradable consumption that are akin to a process of structural transformation, makes the tradable sector more sensitive to commodity price shocks but a smaller fraction of the overall economy. We conclude that changes in commodity prices are not as relevant as other shocks or structural changes in accounting for unemployment even in a commodity-rich economy like Australia.