

Unemployment

Unemployment Rate

- The **unemployment rate** is an *indicator* of the state of the labor market, but should NOT be taken literally as a measure of the fraction of people who want to work but can't find jobs

Unemployment

- **The problem**
 - One of the most devastating experiences a person can have is to be out of work for a prolonged period
 - Discouraged workers are those who have given up looking for work and have simply dropped out of the labor force
 - The Bureau of Labor Statistics does not count discouraged workers as part of the labor force and thus as unemployed

How Accurate Is the Official Unemployment Rate?

- The unemployment rate does not include discouraged workers.
- **Discouraged workers** – people who do not look for a job because they feel they do not have a chance of getting one.

Unemployment

- **The liberal criticism**
 - A person who worked one day last month is counted as employed
 - Someone who works part-time but who wants to work full-time is counted as employed
 - The true unemployment rate is higher than the official rate

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10-11

Understating it!

- So it may **understate** the true level of unemployment because it does not include *discouraged workers*.

Unemployment

- **The conservative criticism**
 - Some just go through the motions of looking for work to remain eligible for benefits and are not really looking for work
 - Huge numbers of Americans – as well as illegal immigrants are working in the underground economy
 - These people are employed off the books, do not report their income, and are not counted as employed by the bureau of labor statistics

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Unemployment

- **The conservative criticism (continued)**
 - The percentage of married women in the labor force has risen from 25 percent in the late 1940s to about 65 percent today (this raises the unemployment rate in three ways)
 - Married women who are reentering the labor force will have to find jobs; because their husbands are employed they can shop around for a while
 - Their husbands, if unemployed, can also shop around for a while if their wives are working
 - The percentage of married women in the labor force
 - The true unemployment rate is lower than the official rate

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How Accurate Is the Official Unemployment Rate?

- The unemployment rate includes as unemployed, people who say they are looking for a job who are really not.

- Many are “working off the books, others are vacationing.

Overstating

- It may *overstate* the true level of unemployment.

Employment and Unemployment

- **Employment** is the number of people working in the economy.
- **Unemployment** is the number of people who are actively looking for work but aren't currently employed.
- The **labor force** is equal to the sum of employment and unemployment.

How Is the Unemployment Rate Computed?

$$UR = \frac{\text{Number of Unemployed}}{\text{Labor Force}}$$

$$\frac{\text{Number employed} + \text{Number unemployed}}{\text{Labor Force}}$$

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$$\begin{aligned} \text{July 2000 Number unemployed} &= 5,650,000 \\ + \text{Number employed} &= 134,749,000 \\ \text{Labor Force} &= 140,399,000 \end{aligned}$$

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10-16

How Is the Unemployment Rate Computed?

$$UR = \frac{\text{Number of Unemployed}}{\text{Labor Force}}$$

$$UR = \frac{5,650,000}{140,399,000}$$

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10-17

How Is the Unemployment Rate Computed?

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$$UR = \frac{5,650,000}{140,399,000}$$

$$UR = .0424245 = 4.2 \%$$

$$\frac{\text{Number employed} + \text{Number unemployed}}{\text{Labor Force}}$$

$$\begin{aligned} \text{July 2000 Number unemployed} &= 5,650,000 \\ + \text{Number employed} &= 134,749,000 \\ \text{Labor Force} &= 140,399,000 \end{aligned}$$

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Calculating the Unemployment Rate

- The **unemployment rate** – the number of unemployed individuals divided by the number of people in the civilian labor force then multiplied by 100.

$$\text{unemployment rate} = \frac{\text{number unemployed}}{\text{labor force}} \times 100$$

Types of Unemployment

- Frictional unemployment
- Structural unemployment
- Cyclical unemployment

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Frictional Unemployment

- The frictionally unemployed are people who are between jobs or just entering or reentering the labor market
 - Usually weeks or months pass before positions are filled
 - At any given time, about 2 or 3 percent of the labor force is frictionally unemployed

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**Unemployment as
Government's Problem**

- **Frictional unemployment** is the unemployment caused by:
 - New entrants into the job market, and
 - People quitting a job just long enough to look for and find another one.

Structural Unemployment

- **Structural unemployment** is that caused by economic restructuring making some skills obsolete.

Structural Unemployment

- A person who is out of work for a relatively long period of time, say, a couple of years, is structurally unemployed. Some examples are
 - Steelworkers and coal miners who are out of work because local steel plants and coal mines have closed
 - Clerical workers, typists, inventory control clerks who have been made obsolete by a computer system
 - People who are functionally illiterate and who are virtually shut out of the labor force
 - One in five adult Americans is functionally illiterate
 - Our educational system turns out 1 million more functional illiterates every year
 - About 2 to 3 percent of our labor force is always structurally unemployed

Cyclical Unemployment

- Cyclical unemployment is anything above the sum of frictional and structural unemployment
 - Caused by the ups and downs in our economy known as the business cycle
- Fluctuations in our unemployment rate are due to cyclical unemployment

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Unemployment

- *Cyclical unemployment* is that which results from fluctuations in economic activity.

Natural Rate of Unemployment

- The *target rate of unemployment* is the lowest sustainable rate of unemployment that policymakers believe is achievable under existing conditions.

• It is sometimes called the **natural rate of unemployment.**

Natural Unemployment Rate

Most economists estimate the natural unemployment rate to be 5 or 6 percent. If we take a 5 percent unemployment rate as our working definition of full employment, anything above 5 percent would be cyclical unemployment

Frictional	2.5%	(Natural)
+ Structural	<u>2.5%</u>	(Natural)
	5.0%	(Full unemployment)
+ Cyclical	<u>1.7%</u>	(Not natural)
Unemployment Rate	6.7%	

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Natural Unemployment Rate

- If it is increasingly difficult to find employees, employers will bid up wage rates, pushing up the rate of inflation
- Once the unemployment rate falls below its natural rate, then inflationary wage pressure emerges

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Unemployment as Government's Problem

- In the 1980s and 1990s, the target rate of unemployment was been between 5 and 7 percent.

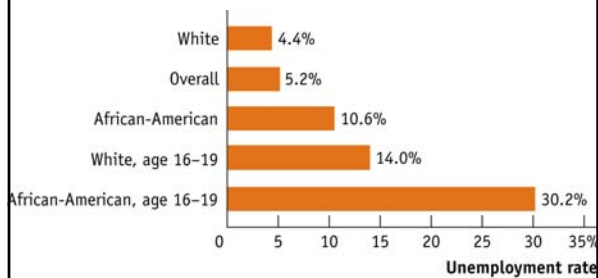
Why the Target Rate of Unemployment Changed

- In the 1970s and early 1980s, a low inflation rate seemed to be incompatible with a low unemployment rate.
- Demographics have changed – different age groups have different rates of unemployment.

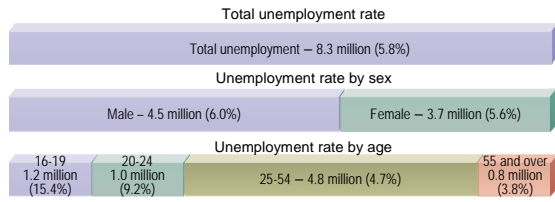
It Differs By Groups

- Unemployment rate varies among demographic groups.

Unemployment Rate



Unemployment by Subcategories, 2002



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When It's a Recession for Whites, It's a Depression for Blacks

- **Historically, the unemployment rate for blacks has been double that of whites**
 - During the 1981-82 recession the unemployment rate for black teenagers topped 50 percent

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When It's a Recession for Whites, It's a Depression for Blacks

- There have been major strides toward equality of economic opportunity since the mid-1960s, but these strides have left in their wake a huge Black (and Hispanic) underclass
 - If you are Black or Hispanic, your chances of being poor are three times as great
 - If you are Black or Hispanic, your chances of being unemployed are twice as great

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When It's a Recession for Whites, It's a Depression for Blacks

- It appears that two things can be done to ease the economic burden of minority groups
 - Make greater efforts to end employment discrimination
 - Avoid recessions and keep the unemployment rate as low as possible

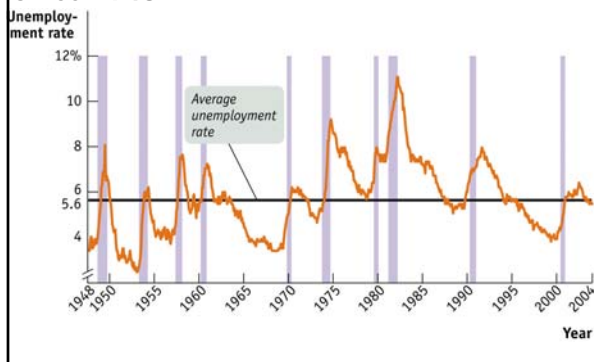
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The Business Cycle

- the effects of recessions and expansions on unemployment;
- the effects on aggregate output; and
- the possible role of government policy.

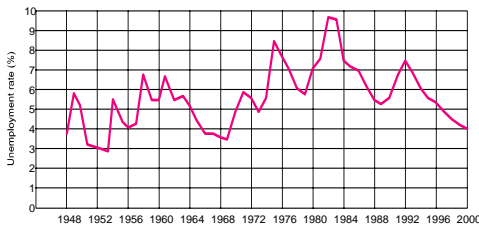
The Unemployment Rate and Recessions Since 1948



The Effects of Recessions and Expansions on Unemployment and Aggregate Output:

In general, the *unemployment rate* rises during recessions and falls during expansions.

The Unemployment Rate, 1948-2000



Unemployment went up between 1969 and 1982 and went down after that
