

Chapter 9 - Unemployment and its Natural Rate

- *Identifying Unemployment*
 - Three Basic Questions
 - How does the government measure the rate of unemployment?
 - What problems arise in interpreting the unemployment data?
 - How long are the unemployed typically without work?
- *Labour Force Statistics*
 - **Population (adults):** all people over 15 years old
 - **Labour Force:** total number of workers, included the unemployed and employed
 - **Employed:** a person who has spent most of the previous week working at a paid job
 - **Unemployed:** a person who is on temporary layoff, is looking for a job, or is waiting for a start date of a new job
 - Long periods of unemployment decreases human capital as people forget the knowledge and techniques from their job
 - **Not in the labour force:** Anyone over 15 years old who is not looking for a job and is currently unemployed

$$\text{Labour Force} = \# \text{ of unemployed} + \# \text{ of employed}$$

- **Unemployment Rate:** the percentage of people whom are unemployed

$$\text{unemployment rate} = \frac{\# \text{ of unemployed persons}}{\text{labour force}} \times 100$$

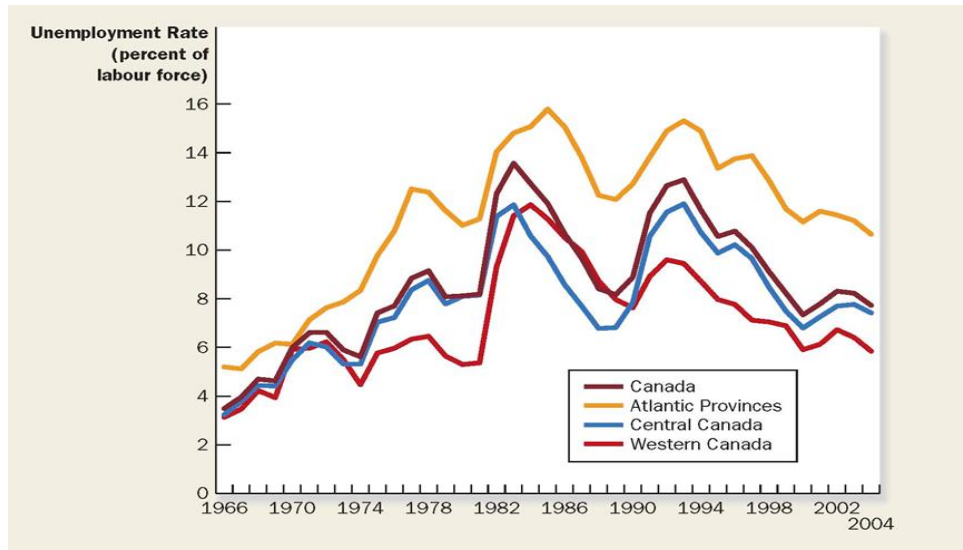
- **Labour Force Participation Rate:** percentage of adult population that is in the labour force

$$\text{labour force participation rate} = \frac{\text{labour force}}{\text{adult population}} \times 100$$

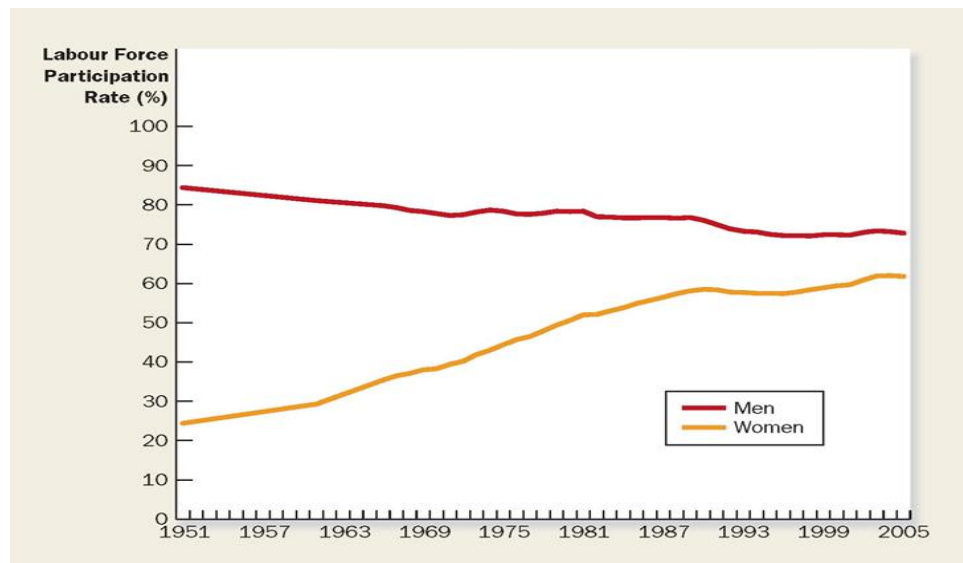
- *Labour Market Experiences of Various Demographic Groups*

| Demographic Group | Unemployment Rate | Labour-Force Participation Rate |
|-------------------------------|-------------------|---------------------------------|
| Both sexes, 15 years and over | 6.8% | 67.2% |
| Males, 15–24 years | 14.2 | 66.1 |
| Males, 25–44 years | 6.1 | 92.3 |
| Males, 45–64 years | 5.3 | 80.2 |
| Females, 15–24 years | 10.6 | 65.8 |
| Females, 25–44 years | 6.0 | 81.8 |
| Females, 45–64 years | 5.2 | 67.0 |

- *Canadian and Regional Unemployment Rates*



- *Labour Force Participation Rates for Men and Women since 1951*



- *Does the Unemployment Rate Measure what We Want it to?*

- It is difficult to distinguish between a person who is unemployed and a person who is not in the labour force
- **Discouraged Searchers**
 - People who would like to work, but have given up on looking after an unsuccessful search
 - They don't show up in unemployment statistics
- Other people may claim to be unemployed in order to receive financial assistance, even though they aren't looking for work

- *How Long are the Unemployed Without Work?*
 - Most spells of unemployment are short
 - Economics and policy makers must be careful when interpreting data on unemployment and designing policies to help the unemployed
 - Most people who become unemployed will soon find jobs
 - Policy solutions directed towards fixing the unemployment problem should soon be directed toward those who are suffering prolonged spells of unemployment
- *Alternative Measures of Labour Underutilization*

| Measure and Description | Percentage of the Labour Force |
|---|--------------------------------|
| Unemployed 1 to 4 weeks | 2.5% |
| Unemployed 5 to 13 weeks | 1.9 |
| Unemployed 14 to 25 weeks | 1.0 |
| Unemployed 26 to 52 weeks | 0.8 |
| Unemployed more than 52 weeks | 0.6 |
| Official Unemployment Rate | 6.8 |
| Discouraged searchers | 0.1 |
| Those awaiting recall | 0.5 |
| Involuntary part-time workers | 1.5 |
| Official rate + discouraged searchers + those awaiting recall + involuntary part-time workers | 8.9 |

- *Why Are There Always Some People Unemployed?*
 - In an ideal labour market, wages would adjust to balance the supply and demand for labour, ensuring that all workers would be fully employed.
 - However, many economies have:
 - **Natural Rate of Unemployment**
 - Unemployment that does not go away on its own, even in the long-run; the amount of unemployment that an economy normally experiences
 - In Canada, the natural rate of unemployment is between 6 and 8 percent
 - **Frictional Unemployment**
 - Unemployment that results from the time that it takes to match workers with jobs; it takes time for workers to find a job that suits them
 - **Job search** is the process of matching workers with appropriate jobs
 - **Sectoral shifts** are changes in the composition of demand across industries or regions of the country
 - **Structural Unemployment**
 - Unemployment that results because the number of jobs available in some labour markets is insufficient to provide jobs for everyone who wants one
 - Occurs when the quantity of labour supplied exceeds the quantity of labour demanded
 - This is often thought to explain longer spells of unemployment
 - Arises from above average equilibrium wages
 - Minimum wage usually exceeds the equilibrium wage for the least skilled or experienced workers causing unemployment

- **Cyclical Unemployment**

- Year-to-year fluctuations in unemployment around its natural rate
- Associated with short-term ups and downs of the business cycle

$$\text{Natural Unemployment} = \text{Frictional Unemployment} + \text{Structural Unemployment}$$

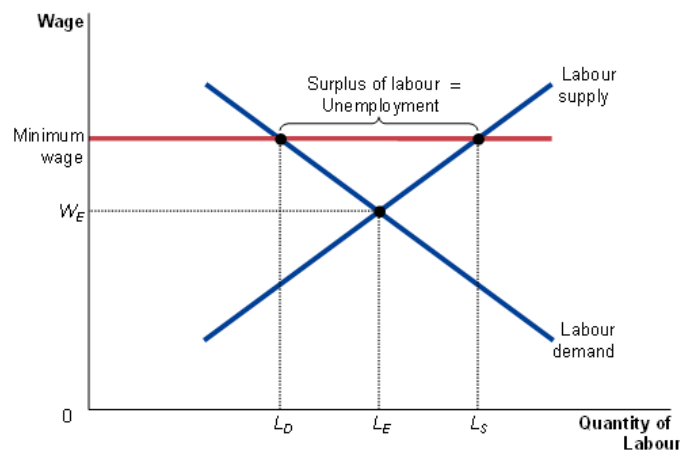
- *Why Frictional Unemployment is Inevitable*

- The economy is always changing
- Changes in the composition of demand among industries or regions - **sectoral shifts**
- It takes time for workers to search and find jobs in new sectors - **job search**

- *Public Policy and Unemployment*

- Government program can affect the time it takes unemployed workers to find new jobs
- These programs include:
 - Government-run employment agencies
 - Public training programs
 - To ease transitions of workers from declining to growing industries and to help disadvantaged groups escape poverty
 - Employment Insurance
 - To ease the burden of those who find themselves unemployed by temporarily providing them with income
 - Minimum-wage laws
 - When minimum wage is set above the level that balances supply and demand, it creates unemployment

- *Unemployment From a Wage Above the Equilibrium Level*



- *Are Unions Good or Bad for the Economy?*

- Critics argue that:
 - Unions cause the allocation of labour to be inefficient and inequitable
 - Wages above the competitive level reduce the quantity of labour demanded and cause unemployment
 - Some workers benefit at the expenses of other workers

- Advocates of Unions argue that:
 - Unions are a necessary to deal with the market power of firms that hire workers
 - Unions are important for helping firms respond efficiently to workers' concerns
- *The Theory of Efficiency Wages*
 - **Efficiency Wages**
 - Above equilibrium wages paid by firms in order to increase worker productivity
 - The theory of efficiency wages states that firms operate more efficiently if wages are above the equilibrium level