

INTRODUCTION TO ECONOMICS

Unemployment^a



Martina Zweimüller
Department of Economics

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^aBased on Ch. 23 of “*Principles of Economics*” by Betsey Stevenson & Justin Wolfers.

Chapter Objective

- Learn to assess the causes and costs of unemployment.



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Roadmap (1 of 4)

- **Employment and Unemployment**

Understand what unemployment is and how it is measured.

- **The Dynamics of the Labor Market**

Learn how people move in and out of jobs and in and out of the labor market.

- **Understanding Unemployment**

Analyze the causes of unemployment.

- **The costs of unemployment**

Learn about the economic and social costs of unemployment.

Employment and Unemployment

The unemployment rate indicates the state of the economy.

Who is counted in labor market statistics?

Those age 16 or older who are not in the military or institutionalized are considered the **working-age population**.

Who is counted as employed?

Working-age people who are working are called employed.

Who is counted as unemployed?

Working-age people without jobs who are trying to get jobs are called **unemployed**.

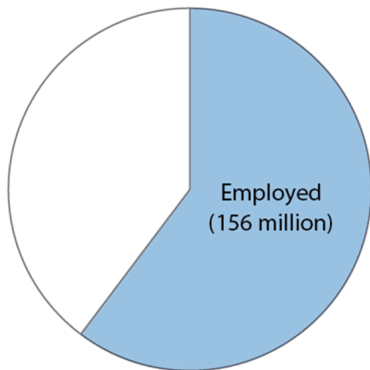
They must be

- part of the working-age population.
- not currently working.
- actively seeking work.
- able to accept a job if it were offered.

Who is counted in the labor force?

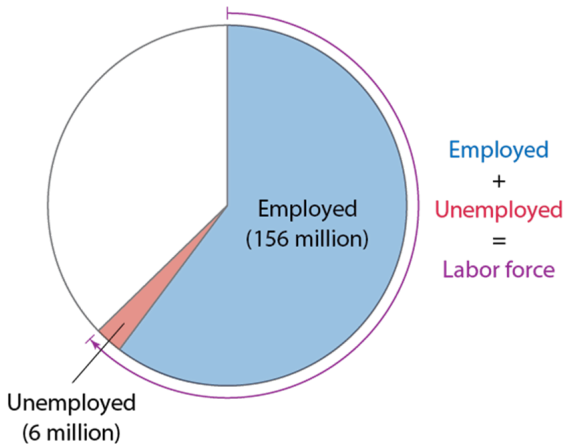
The sum of the employed and unemployed is called the **labor force**. If neither employed nor unemployed, a person is referred to as **not in the labor force**.

U.S. Working-Age Population - Step 1

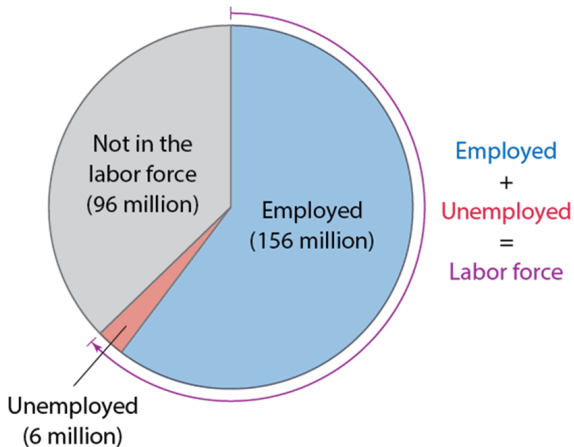


Employed

U.S. Working-Age Population - Step 2



U.S. Working-Age Population - Step 3



Clicker question (1 of 7)

Aiden recently graduated from college without a job. He hasn't started looking for one yet, but he plans to start searching for a job next month after he has moved back to his family's house and had time to catch up with his friends. Aiden is considered

1. employed.
2. unemployed.
3. not in the labor force.

Clicker question (1 of 7)

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1. employed.
2. unemployed.
3. not in the labor force. **correct**

Clicker question (2 of 7)

Louise opened her own Etsy shop while she finishes her final year of college. She has time to commit only five hours per week to the business. Louise is considered

1. employed.
2. unemployed.
3. not in the labor force.

Clicker question (2 of 7)

Louise opened her own Etsy shop while she finishes her final year of college. She has time to commit only five hours per week to the business. Louise is considered

1. employed. **correct**
2. unemployed.
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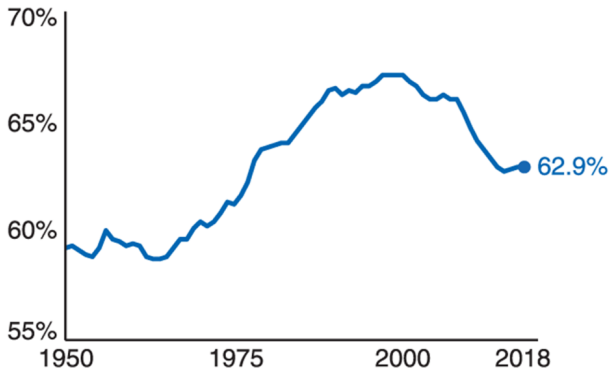
How is the labor force participation rate calculated?

The **labor force participation rate** is the percentage of the working-age population who are either employed or unemployed.

Labor force participation rate =

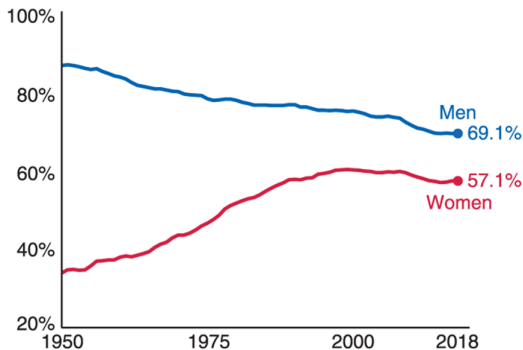
$$\frac{\text{Employed} + \text{Unemployed}}{\text{Working - age population}} \times 100$$

U.S. Labor Force Participation Rate over Time



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Labor Force Participation Rate for Men and Women



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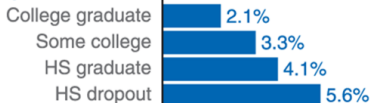
How is the unemployment rate calculated?

The **unemployment rate** is the share of the labor force who are unemployed.

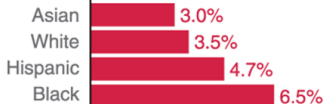
$$\text{Unemployment rate} = \frac{\text{Unemployed}}{\text{Labor force}} \times 100$$

Unemployment Rate in the United States by Group (1 of 2)

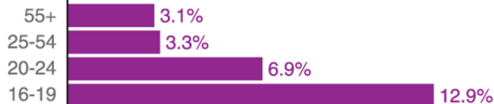
By education



By race



By age

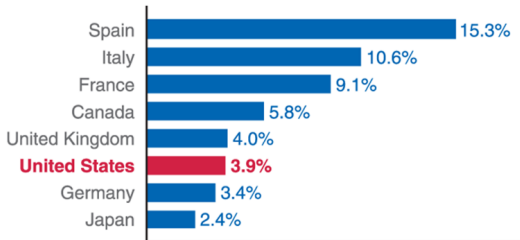


By gender



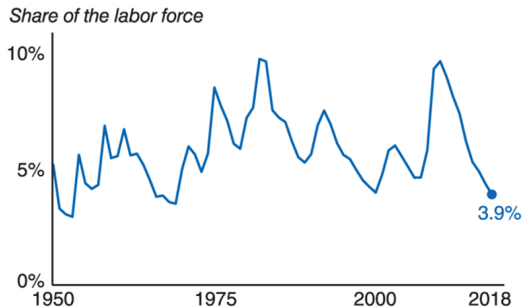
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Unemployment Rate in the United States by Group (2 of 2)



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U.S. Unemployment Rate over Time



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Clicker question (3 of 7)

The town of Fincastle has 250 working-age adults, of whom 200 are employed and 25 are unemployed.

The labor force participation rate is

1. 90%.
2. 11%.
3. 80%.
4. 10%.

Clicker question (3 of 7)

The town of Fincastle has 250 working-age adults, of whom 200 are employed and 25 are unemployed.

The labor force participation rate is

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Clicker question (4 of 7)

The town of Fincastle has 250 working-age adults, of whom 200 are employed and 25 are unemployed.

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The town of Fincastle has 250 working-age adults, of whom 200 are employed and 25 are unemployed.

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Review: Measuring Unemployment

- The working-age population is broken down into those in the labor force and those not in the labor force.
- Labor force participation rates effect GDP growth rates.
- The unemployment rate is taken as a percentage of the labor force.
- The unemployment rate differs across different groups and different countries.
- The equilibrium unemployment rate is the long-run unemployment rate to which the economy tends to return.

Roadmap (2 of 4)

- Employment and Unemployment

Understand what unemployment is and how it is measured.

- **The Dynamics of the Labor Market**

Learn how people move in and out of jobs and in and out of the labor market.

- Understanding Unemployment

Analyze the causes of unemployment.

- The costs of unemployment

Learn about the economic and social costs of unemployment.

Labor Market Dynamics

- Each month, more than 5 million people in the U.S. start a new job.
- Each month, over 5 million people leave jobs in the U.S.
- Businesses hire new people and eliminate jobs on a daily basis.
- A dynamic labor market makes it easier for people to find new jobs.

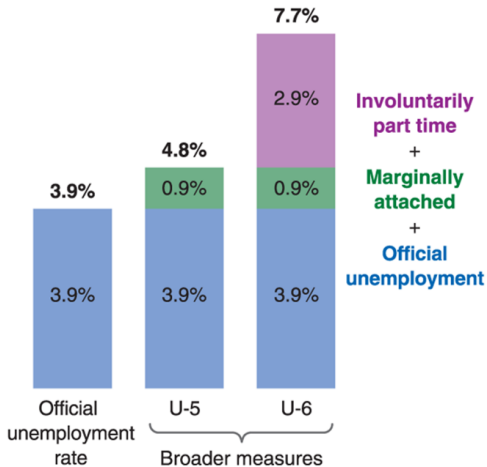
Alternate Measures of Unemployment

We typically hear about the official unemployment rate (U3).

Other measures include the following:

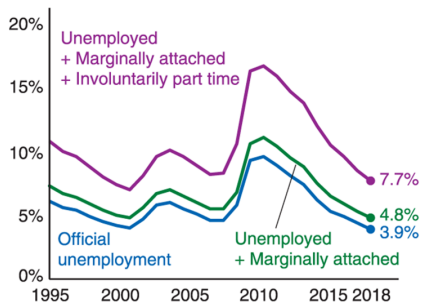
- **Marginally attached:** Someone who wants a job, has looked in the past year, but isn't actively seeking work.
- **Underemployed:** Someone who is working but wants more hours or whose job isn't adequately using their skills.
- **Involuntarily part time:** Someone who is working part-time but wants full-time work.

U.S. Unemployment Including Alternative Measures



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Alternative Measures of Unemployment over Time



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Discussion Question: Alternative Unemployment Measures

Should the official unemployment rate include marginally attached workers? Why would this measure be better or worse than the official measurement?

Review: Dynamics of the Labor Market (1 of 2)

- The U.S. labor market is very dynamic with new jobs being added and existing jobs being eliminated every day.
- People also move in and out of jobs and in and out of the labor market every day.
- While most unemployment spells are short, discrimination and skill loss make it hard for some people to find work.
- Alternative measures of unemployment take into account marginally attached workers, the underemployed, and involuntary part-time workers.

Roadmap (3 of 4)

- Employment and Unemployment

Understand what unemployment is and how it is measured.

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Learn how people move in and out of jobs and in and out of the labor market.

- **Understanding Unemployment**

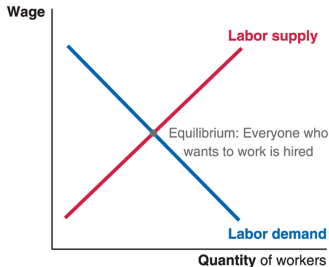
Analyze the causes of unemployment.

- The costs of unemployment

Learn about the economic and social costs of unemployment.

Supply and Demand in the Labor Market

- The labor market is an input market.
- Businesses demand labor.
- Households supply labor.
- The market price is the wage rate.
- Equilibrium is where the supply of labor equals the demand for labor.



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Three Types of Unemployment

- **Frictional:** Unemployment that is due to the time it takes for employers to search for workers and for workers to search for jobs.
- **Structural:** Unemployment that occurs because wages don't fall to bring labor demand and supply into equilibrium.
- **Cyclical:** Unemployment that is due to a temporary downturn in the economy.

What causes frictional unemployment?

1. Job-search resources
2. Skills mismatch
3. Unemployment insurance and other income support



Frances Roberts/Alamy

What causes structural unemployment?

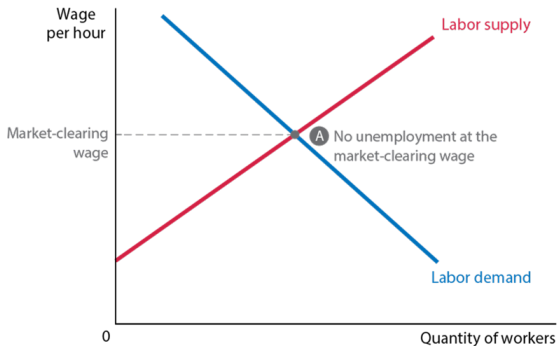
Structural unemployment occurs when wages are unable to fall to the market-clearing wage. This creates a labor surplus.

In a well-functioning labor market, equilibrium occurs where labor supply equals labor demand and no structural unemployment exists.

Structural Unemployment - Step 1

Structural unemployment occurs when wages are unable to fall to the market-clearing wage.

- A When wages can easily adjust to market conditions, equilibrium occurs at the market-clearing wage, where the labor supply curve meets the labor demand curve and there is no unemployment.

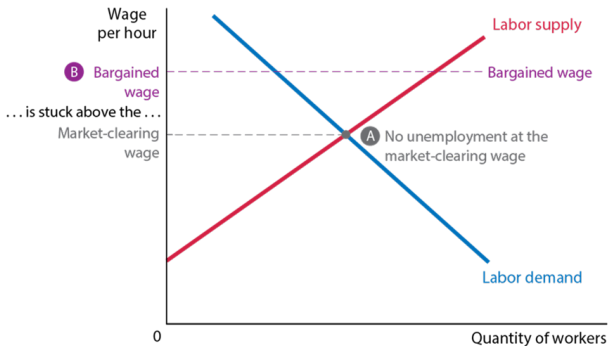


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Structural Unemployment - Step 2

Structural unemployment occurs when wages are unable to fall to the market-clearing wage.

- A When wages can easily adjust to market conditions, equilibrium occurs at the market-clearing wage, where the labor supply curve meets the labor demand curve and there is no unemployment.
- B Sometimes, the bargained wage gets stuck above the market-clearing wage.

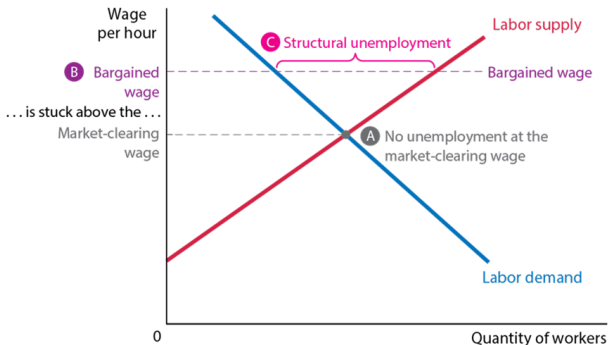


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Structural Unemployment - Step 3

Structural unemployment occurs when wages are unable to fall to the market-clearing wage.

- A When wages can easily adjust to market conditions, equilibrium occurs at the market-clearing wage, where the labor supply curve meets the labor demand curve and there is no unemployment.
- B Sometimes, the bargained wage gets stuck above the market-clearing wage.
- C As a result, there's a persistent gap between the supply of labor and the demand for it. This causes structural unemployment.



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Efficiency Wages: A Cause of Structural Unemployment

- An **efficiency wage** is a higher wage paid to encourage greater worker productivity.
- Efficiency wages cause structural unemployment but can also lower total labor costs.

Institutional Causes of Structural Unemployment

1. Unions keep wages high for some workers.
2. Job protection regulations make it hard to fire workers.
3. Minimum wage laws prevent wages from falling to the market-clearing wage.

Clicker question (5 of 7)

Boris just finished an economics degree and wants to live in Washington, D.C., where there are many job openings matching his skills and education. He moves to D.C. without a job and crashes on a friend's couch while looking for one.

Boris is considered

1. frictionally unemployed.
2. structurally unemployed.
3. cyclically unemployed.

Clicker question (5 of 7)

Boris just finished an economics degree and wants to live in Washington, D.C., where there are many job openings matching his skills and education. He moves to D.C. without a job and crashes on a friend's couch while looking for one.

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1. frictionally unemployed. **correct**
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3. cyclically unemployed.

Clicker question (6 of 7)

Netanya owns a consulting business. During a severe downturn in the economy, she has to fire several of her analysts.

Netanya's analysts are considered

1. frictionally unemployed.
2. structurally unemployed.
3. cyclically unemployed.

Clicker question (6 of 7)

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Netanya's analysts are considered

1. frictionally unemployed.
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Clicker question (7 of 7)

Indeed.com improves its algorithms so that job seekers can more easily find jobs that match their skills.

This will likely reduce

1. frictional unemployment.
2. structural unemployment.
3. cyclical unemployment.

Clicker question (7 of 7)

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Review: Dynamics of the Labor Market (2 of 2)

- There are three types of unemployment: frictional, structural, and cyclical.
- Frictional unemployment occurs when there are enough jobs for everyone, but it takes time for workers and employers to find each other.
- Structural unemployment occurs when there are not enough jobs for everyone and the wage rate is prevented from falling to the market-clearing wage.
- Frictional unemployment and structural unemployment explain why the equilibrium unemployment rate is above zero.

Roadmap (4 of 4)

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Economic Costs of Unemployment

- The unemployed often end up with lower wages and worse career opportunities.
- **Hysteresis** occurs when a period of high unemployment leads to a higher equilibrium unemployment rate.
- High unemployment means that the government receives lower tax revenues but spends more.

Social Costs of Unemployment

Unemployment is isolating and painful.

Long-term unemployment is associated with worse outcomes. →

Life expectancy, morbidity, clinical depression

Children whose parents experience unemployment suffer. →

Worse academic, mental, and future economic outcomes

Protecting Yourself from the Harmful Effects of Unemployment

- Don't postpone your job search.
- Build up a nest egg.
- Build new skills.
- Look for new opportunities while you are still employed.
- Use your network to find a new job.
- Avoid long-term unemployment.



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Key Takeaways

- We have official measures for the labor market.
- Alternative measures account for the underemployed, marginally attached, and involuntarily part time.
- Unemployment has three main causes.
- There are economic and social costs associated with unemployment.