

1. GDP and GNP:

GDP measures the aggregate money value of output produced by the economy over a year. In other words, GDP is obtained by valuing all final goods and services produced domestically in a year at market prices. GDP is also calculated by adding all the incomes generated by the act of production. Since only domestically produced goods and services is estimated, we use the word 'domestic' to distinguish it from the gross national product. The word 'gross' means that no deduction for depreciation is allowed.

GNP includes GDP plus net property income from abroad. Thus, GNP includes incomes that nationals earn abroad, but it does not include the incomes earned by foreign nationals. On the other hand, GDP is concerned with incomes generated domestically even by the foreigners. GDP ignores incomes received from abroad.

It is a measure of the goods and services produced within the country, regardless of who owns the assets. And GNP is the total of incomes earned by the residents of a country, regardless of where the assets are located.

$$\text{GNP} = \text{market value of domestically produced goods and services} + \text{incomes earned by the nationals in foreign countries} - \text{incomes earned in the country by foreigners.}$$

$$\text{GDP} = \text{market value of goods and services produced in the country} + \text{incomes earned in the country by foreigners} - \text{incomes received by resident nationals from abroad.}$$

An example will help our understanding. Suppose, an Bangladeshi doctor goes to the USA temporarily to work there. The income he earns by rendering his service in the USA is included in the US GNP and not Bangladesh's GDP because it is earned in the USA. But this income is not part of the US GDP because the Bangladeshi doctor is a foreign national there. Similarly, the income of a US ambassador in Dhaka is not included in the US GNP, but it is a part of Bangladesh's GDP. Thus,

$$\text{GNP} = \text{GDP} + \text{net property income from abroad.}$$

Thus, GDP measures the aggregate money value of all goods and services produced by factors of production located and paid for in the domestic economy, even if these factors are owned abroad.

2. GDP at Market Price and GDP at Factor Cost:

When national product is measured, it is measured at current market prices. Market prices always reflect taxes and subsidies on the commodities produced. If indirect taxes are imposed on commodities, market prices of the commodities go up. A 10 p.c. tax on a book on economics will raise its price. Tax is included in the price of a commodity and tax is not a production. Similarly, subsidies are provided to some commodities, as a result of which prices decline. If we do not make any adjustment for such taxes and subsidies, we obtain GDP at market prices.

GDP at market prices do not reflect true incomes of factors of production. It includes taxes and subsidies but such are not production and, hence, they cannot be treated as incomes of productive inputs.

Unemployment Types: 7 Main Types of Unemployment

Here is a list of seven main types of unemployment observed in the present-day world.

Type # 1. Frictional:

Such unemployment exists in almost every economy all the time. This type of unemployment occurs due to the normal working of the economy. As John Beardshaw has rightly put it, **"It is inevitable in a developing economy that people will from time to time change jobs and may perhaps be unemployed for some weeks as they wait to take up the next job."**

In truth, some unemployment is due to economic frictions arising from changes in employers' demands for different types of labour. Thus the skill of certain workers may be made obsolete by changes in the technique of production.

In addition, changes in consumers' demands cause expansion in some industries and contraction in others. Consequently at any one time there will be firms wishing to employ additional workers while other firms are being forced to lay off workers.

In theory, the workers laid off will be engaged by the expanding firms. In practice, however, there are factors which prevent a rapid adjustment and cause unemployment. For example, the new jobs created by the growing demand for the newer goods and services may be of a different type and in different places from the jobs which are being lost.

Specialized workers cannot easily be transferred to new work while many workers are hesitant about moving to new areas. The overall result is that there may be some unemployment in one industry or in one area, while in some other industry or area, labour is scarce.

Type # 2. Seasonal:

This type of unemployment occurs due to the seasonal nature of some industries. In some industries the demand for goods or services fluctuates seasonally. For example, hotels, restaurants, and ice-cream factories are fully staffed by employees during the summer but many of those workers are laid off during the winter.

Similarly, some tailors who are specialized in the manufacture of woollen garments lose their jobs during the summer season. A similar problem occurs in some outdoor occupations when bad weather stops production. Examples of these are building construction and deep-sea fishing.

In India, however, this type of unemployment is usually observed in agriculture. Agriculture is a seasonal occupation in most parts of the country. It cannot provide full time jobs to most people throughout the year. This problem arises mainly due to the absence of alternative employment opportunities outside agriculture (especially in the off-season).

Type # 3. Technological:

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There is no doubt that improvements in technology have reduced the demand for labour. However, one may expect with some degree of optimism that in the long run improvements in technology and the resultant increases in productivity will create jobs by leading to an expansion of the economy.

Type # 4. Residual:

In every country, there is always a residue of unemployment, due to frictional and seasonal causes, which planners and policy-makers cannot reduce. In addition there are some people who are not willing to work but get their names registered with employment exchanges in order to receive compensation from the government.

This classification also includes those people who are unable to work because of physical or mental disabilities. The existence of such employment makes it difficult to suggest an accurate definition of full employment.

Monetarists like Phelps and Friedman use the term natural rate of unemployment which is consistent with price level stability. We sometimes try to equate this with the residual unemployment. But both are very difficult ideas to quantify.

Type # 5. Structural:

This type of unemployment occurs due to a change in the structure of the economy. For example, the setting up of large mechanized manufacturing units in India led to the decline of handicrafts. Most artisans were displaced because they did not have sufficient marketable skill.

Thus this type of employment results from the imbalance caused by the decline of one industry and the rise of another. In other words, structural unemployment results when industries fail to create enough jobs to absorb those made redundant, or because the new industry is situated in a different area or requires different skills,

This type of unemployment arises through a change in demand which switches production from one kind of work to another. Structural unemployment differs from frictional unemployment in that it occurs through permanent or long-term changes in the structure of the economy.

Type # 6. General or Cyclical:

All of the types of unemployment considered so far are the result of changes in the economy. However, the most severe unemployment of the type experienced in the 1930s as also in the 1980s is a result of the general depression of the whole country. The name 'cyclical' carries the significance that this type of unemployment is the result of depression, which is an important phased of the business (trade) cycle.

This form of unemployment arises from the trade cycle and is sometimes referred to as mass unemployment. Since the Industrial Revolution at the end of the eighteenth century, the

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volume of economic activity (and hence the level of employment) has proceeded in a succession of 'booms' and 'slumps'.

A period of good trade has declined into a bad one which in turn was followed by an upswing of renewed activity. Unemployment occurs during the downswing of the trade cycle and is at its worst in the trough of the cycle.

Cyclical unemployment is characterized by a general deficiency of demand and consequently affects all industries at one and the same time, producing widespread unemployment. Many economists consider that the trade cycle in its severe pre-1939 form should be a thing of the past. However, the economy has proceeded in a series of booms and slumps since 1945 and employment has followed a similar pattern.

It is this type of unemployment goes by the name demand-deficient unemployment (as compared to real- wage unemployment) which occurs due to lack of aggregate demand. According to Keynes employment depends on output (or GNP,) and output, in its turn, depends on the level of demand or purchasing power.

If demand falls, production will fall and if production falls, employment will fall. (This is so because Keynes assumed rigidity of wages and prices, while criticizing the classical economists who assumed wage- price flexibility). Thus, if saving increases, and consumption falls, the level of employment will also fall. As Keynes commented: **"Whenever you save five shillings, you put a man out of work for a day."**

Type # 7. Hidden Unemployment:

This form of unemployment is sometimes known as disguised unemployment. It can take several forms. For example, during a temporary fall in demand, employers may retain on their payrolls a great number of employees than they can provide work for.

The motive for doing this is to ensure there is not a labour shortage when demand recovers. Alternatively an employer can counteract a fall in demand by introducing short-time working. In neither case will workers be registered as unemployed although there is not, in fact, sufficient work available for them.

This classification of the different types of unemployment shows that apart from cyclical unemployment (an analysis of the trade cycle is outside the scope of this book), s most unemployment arises from the fact that either capital or labour is immobile.

If these factors of production were completely mobile, few unemployment problems would arise: as some industries declined and were replaced by expanding industries, capital and labour would be reallocated with a minimum of disturbance. What can be done to increase the mobility of labour and capital and thereby provide a major remedy for unemployment?