

Open Economy and Unemployment

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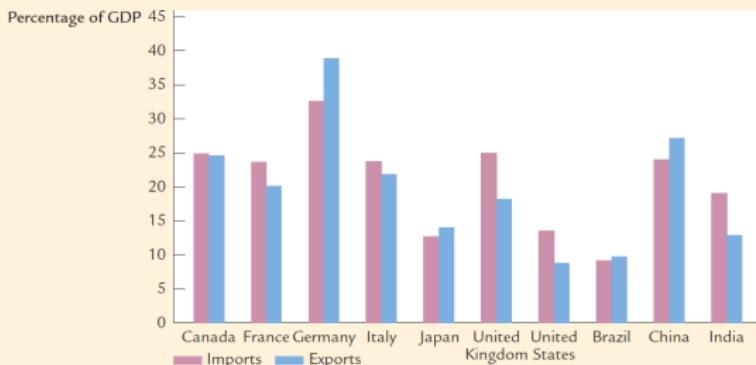
Fall 2016

Part 1 of Today's Class

- ▶ The open economy
 - ▶ The international flow of capital and goods
 - ▶ Saving and investment in a small open economy
 - ▶ Exchange rates

Imports and Exports as Percentage of GDP

FIGURE 6-1



Imports and Exports as a Percentage of Output: 2010 While international trade is important for the United States, it is even more vital for other countries.

Source: International Monetary Fund.

The Role of Net Exports

- ▶ Open economy: a country's spending need not equal its output.
- ▶ Divide expenditure on the output Y into four components.
 - ▶ Consumption of domestic goods and services: C^d
 - ▶ Investment in domestic goods and services: I^d
 - ▶ Government purchases of domestic goods and services: G^d
 - ▶ Exports of domestic goods and services: X
- ▶
$$Y = C^d + I^d + G^d + X$$

The Role of Net Exports

- ▶ Define domestic spending on foreign goods and services
 - ▶ Consumption of foreign goods and services: C^f
 - ▶ Investment in foreign goods and services: I^f
 - ▶ Government purchases of foreign goods and services: G^f
 - ▶ Substitute: $Y = C - C^f + I - I^f + G - G^f + X$
 - ▶ Rearrange: $Y = C + I + G + X - IM$ or $Y = C + I + G + NX$
 - ▶ IM is expenditure on imports and NX is net exports.
- ▶ Net Exports = Outputs – Domestic Spending
 - ▶ Positive net exports: output exceeds domestic spending.
 - ▶ Negative net exports: output falls short of domestic spending.

International Capital Flows and the Trade Balance

- ▶ Define net exports as trade balance
 - ▶ The relationship between national saving and net export:
 $S - I = NX$ with $S = Y - C - G$.
 - ▶ Net capital outflow or net foreign investment: $S - I$
- ▶ National income accounts identity:
 - ▶ Net Capital Outflow = Trade Balance
 - ▶ Trade surplus:both are positive.
 - ▶ Trade deficit: both are negative.
 - ▶ Balanced trade: both are zero.
- ▶ Remark: The international flow of funds to finance capital accumulation and the international flow of goods and services are two sides of the same coin.

International Flow of Goods and Capital: Summary

TABLE 6-1

International Flows of Goods and Capital: Summary

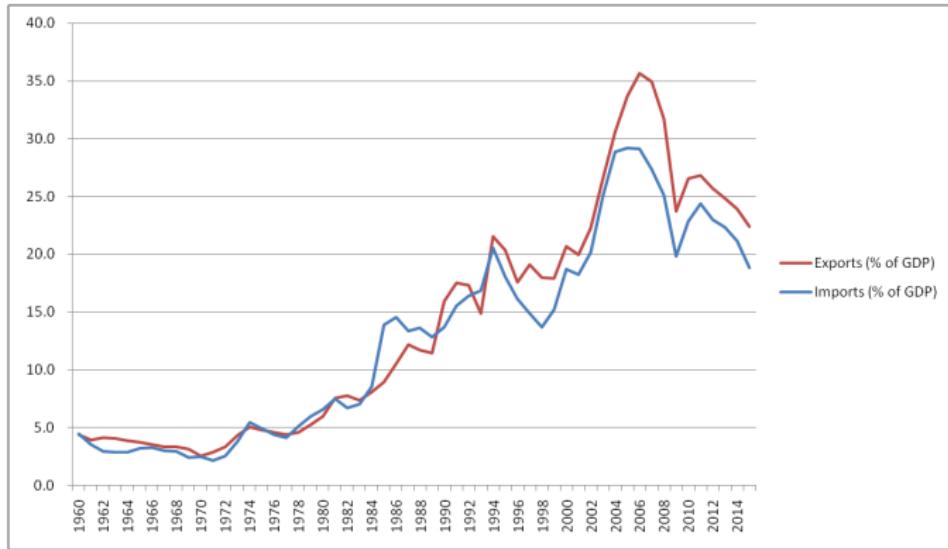
This table shows the three outcomes that an open economy can experience.

Trade Surplus	Balanced Trade	Trade Deficit
Exports > Imports	Exports = Imports	Exports < Imports
Net Exports > 0	Net Exports = 0	Net Exports < 0
$Y > C + I + G$	$Y = C + I + G$	$Y < C + I + G$
Saving > Investment	Saving = Investment	Saving < Investment
Net Capital Outflow > 0	Net Capital Outflow = 0	Net Capital Outflow < 0

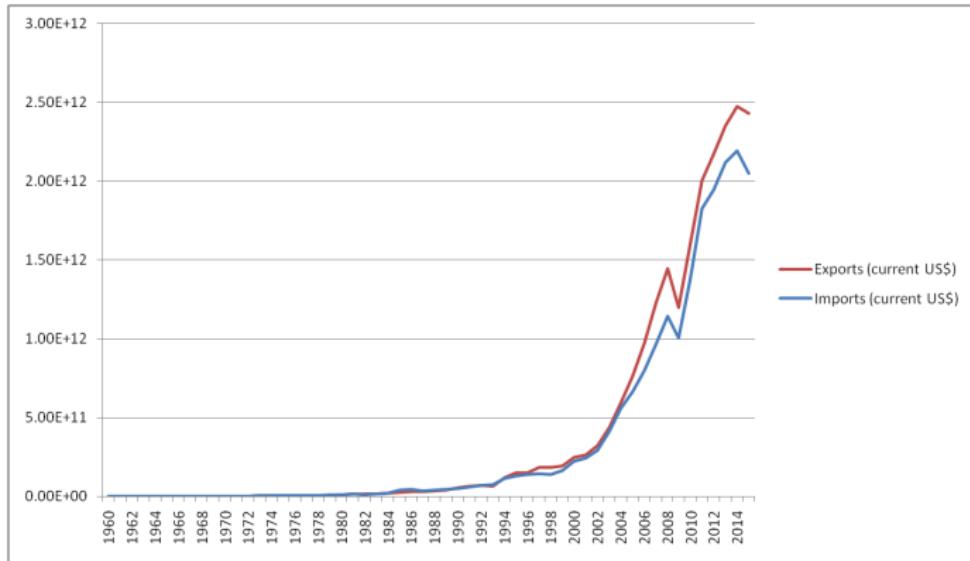
International Flow of Goods and Capital: Example

- ▶ Example: Bill Gates sells a copy of Windows to a Japanese consumer for 5,000 yen.
 - ▶ If Bill Gates keeps the cash or invests in Japan, U.S. experiences a net capital outflow and a rise in net exports.
 - ▶ Correspondingly, Japan experiences a net capital inflow and a decline in net exports.
 - ▶ If Bill Gates uses it to buy something made in Japan, net exports and net capital outflow are both unchanged.
- ▶ Example: the irrelevance if bilateral trade balances
 - ▶ The United States sells \$100 billion in machine tools to Australia
 - ▶ Australia sells \$100 billion in wheat to China
 - ▶ China sells \$100 billion in toys to the United States.

China Trade Data



China Trade Data



China Trade Data: Steel



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- ▶ The open economy
 - ▶ Saving and investment in a small open economy
 - ▶ Exchange rates

Saving and Investment in a Small Open Economy

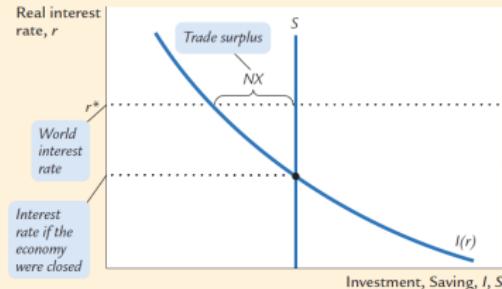
- ▶ Define a small open economy
 - ▶ It has negligible effect on the world interest rate r^* .
 - ▶ Its residents have full access to the world financial market $r = r^*$.
 - ▶ The equilibrium of the world saving and investment determines r^* .
- ▶ Why a small open economy?
 - ▶ This assumption simplifies the analysis greatly.
 - ▶ Canada and the Netherlands may fit better, but not U.S. or China.

Small Open Economy: The Model

- ▶ Main assumptions
 - ▶ Output Y is fixed by the factors of production and the production function: $Y = \bar{Y} = F(\bar{K}, \bar{L})$
 - ▶ Consumption C is positively related to disposable income $Y - T$:
 $C = C(Y - T)$
 - ▶ Investment I is negatively related to the real interest rate r :
 $I = I(r)$
- ▶ Define the net export NX with these assumptions
 - ▶ $NX = [\bar{Y} - C(\bar{Y} - T) - G] - I(r^*) = \bar{S} - I(r^*)$
 - ▶ The trade balance depends on saving and investment.
 - ▶ Saving depends on fiscal policy (G and T) and investment depends on the world real interest rate.
 - ▶ The trade balance is determined by the difference between saving and investment at the world interest rate.

Small Open Economy: The Model

FIGURE 6-2



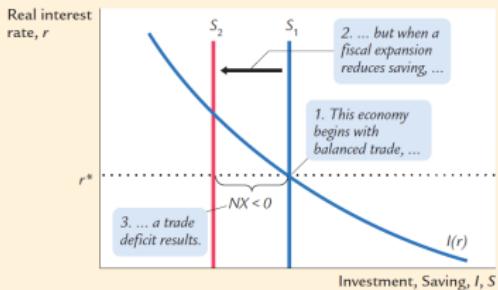
Saving and Investment in a Small Open Economy In a closed economy, the real interest rate adjusts to equilibrate saving and investment. In a small open economy, the interest rate is determined in world financial markets. The difference between saving and investment determines the trade balance. Here there is a trade surplus, because at the world interest rate, saving exceeds investment.

How Policy Influence the Trade Balance

- ▶ Assumption: a position of balanced trade.
- ▶ Fiscal policy at home: increasing government spending
 - ▶ It reduces national saving S , and investment remains the same.
 - ▶ The net export falls and the economy runs a trade deficit.
- ▶ Fiscal policy at home: a tax cut
 - ▶ It raises disposable income $Y - T$, stimulates consumption, and reduces national saving.
 - ▶ The reduction in national saving lowers NX .

Fiscal Policy at Home

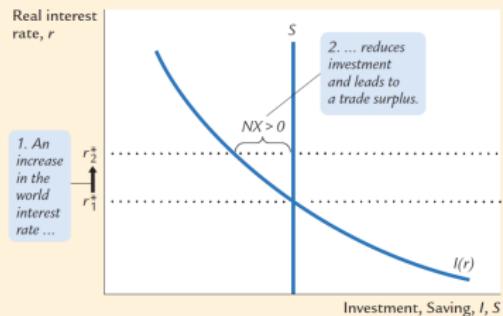
FIGURE 6-3



A Fiscal Expansion at Home in a Small Open Economy An increase in government purchases or a reduction in taxes reduces national saving and thus shifts the saving schedule to the left, from S_1 to S_2 . The result is a trade deficit.

Fiscal Policy Abroad

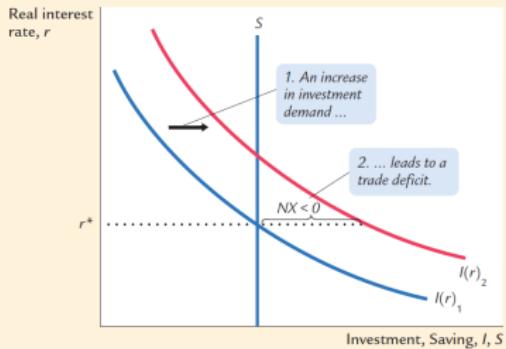
FIGURE 6-4



A Fiscal Expansion Abroad in a Small Open Economy A fiscal expansion in a foreign economy large enough to influence world saving and investment raises the world interest rate from r_1^* to r_2^* . The higher world interest rate reduces investment in this small open economy, causing a trade surplus.

Shifts in Investment Demand

FIGURE 6-5



A Shift in the Investment Schedule in a Small Open Economy An outward shift in the investment schedule from $I(r)_1$ to $I(r)_2$ increases the amount of investment at the world interest rate r^* . As a result, investment now exceeds saving, which means the economy is borrowing from abroad and running a trade deficit.

How Policy Influence the Trade Balance

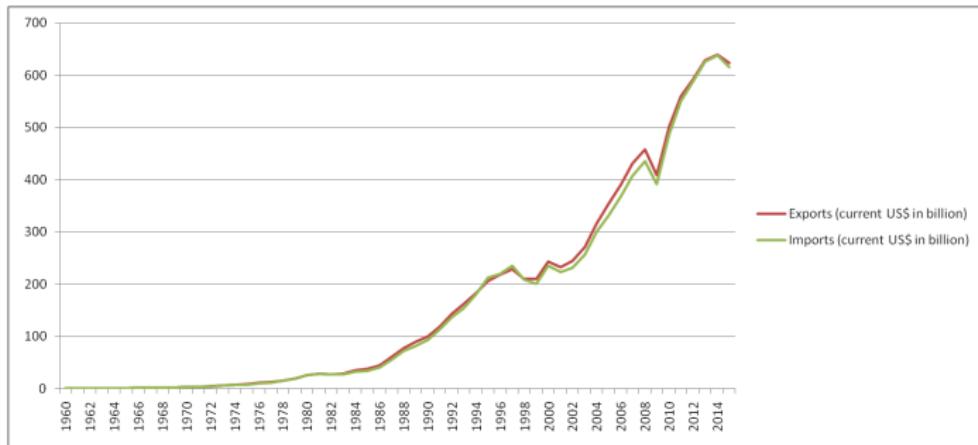
► Remark

- ▶ The trade balance depends on fiscal policy, the world interest rate and the investment schedule.
- ▶ A change in fiscal policy that reduces national saving leads to a trade deficit.
- ▶ An increase in the world interest rate due to a fiscal expansion abroad leads to a trade surplus.
- ▶ An outward shift in the investment schedule causes a trade deficit.

Small Open Economy: Hong Kong



Small Open Economy: Hong Kong



Small Open Economy: Hong Kong

► Facts

- ▶ Hong Kong's service-oriented economy is characterized by its low taxation, almost free port trade and well established international financial market.
- ▶ The Hong Kong dollar is legally issued by three major international commercial banks and pegged to the US Dollar.
- ▶ In 1983, the Hong Kong dollar left its 16:1 peg with the Pound sterling and switched to the current US-HK Dollar peg.
- ▶ Interest rates are determined by the individual banks in Hong Kong to ensure it is fully market-driven.
- ▶ Hong Kong stock exchange is the sixth largest in the world, after NYSE, NASDAQ, London Stock Exchange, Japan Exchange group and Shanghai Stock Exchange.
- ▶ Hong Kong is the fourth largest container ports in the world, after Shanghai, Singapore and Shenzhen.

Small Open Economy: Hong Kong

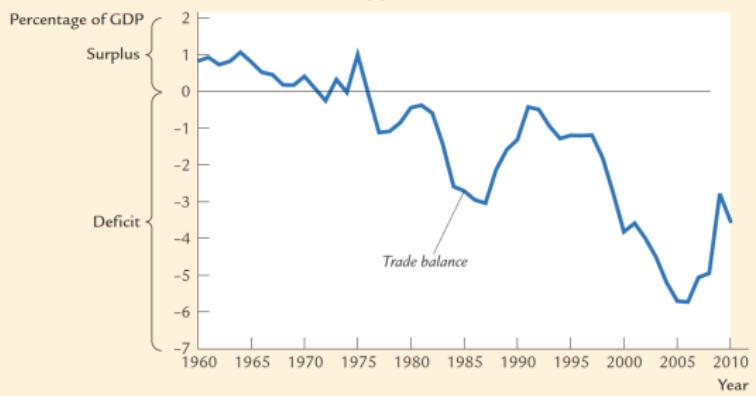
► Timeline

- ▶ Negotiation deadlock between China and United Kingdom on Transfer of sovereignty over Hong Kong in 1983.
- ▶ Asian financial crisis from 1997-1998
- ▶ Dot-com bubble in 2000
- ▶ SARS crisis in 2003
- ▶ Financial crisis or Great Recession from 2007 to 2009
- ▶ Chinese stock market crash in 2015
- ▶ United Kingdom European Union membership referendum in 2016

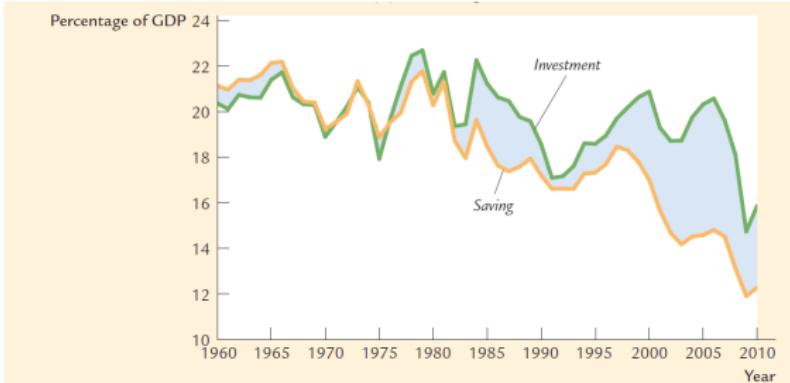
The U.S. Trade Deficit

FIGURE 6-6

(a) The U.S. Trade Balance



The U.S. Trade Deficit



The Trade Balance, Saving, and Investment: The U.S. Experience

Panel (a) shows the trade balance as a percentage of GDP. Positive numbers represent a surplus, and negative numbers represent a deficit. Panel (b) shows national saving and investment as a percentage of GDP from 1960 to 2010. The trade balance equals saving minus investment.

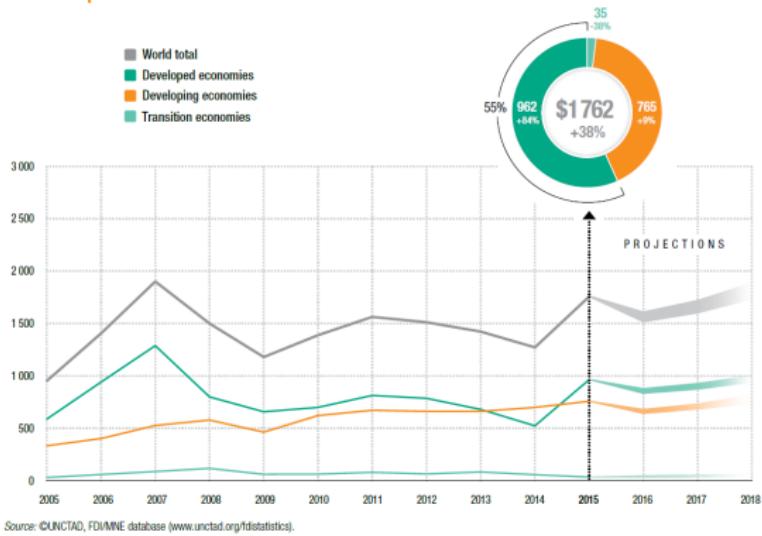
Source: U.S. Department of Commerce.

Why Doesn't Capital Flow to Poor Countries

- ▶ The U.S. trade deficit represents a capital inflow to U.S..
 - ▶ Revisit the Cobb-Douglas function: $F(K, L) = AK^\alpha L^{1-\alpha}$
 - ▶ An increase in K/L decreases the marginal product of capital:
$$MPK = \alpha A (K/L)^{\alpha-1}$$
 - ▶ Capital should be more valuable where it is scarce.
- ▶ Answers:
 - ▶ Per countries have not only lower levels of capital accumulation per worker K/L , but inferior production capabilities A as well.
 - ▶ The property rights are often not enforced.

Global Foreign Direct Investment

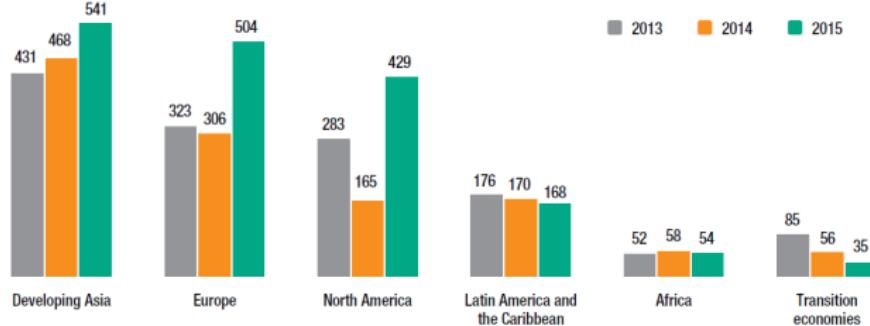
Figure I.1. | Global FDI inflows by group of economies, 2005–2015, and projections, 2016–2018
(Billions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistratistics).

Global Foreign Direct Investment

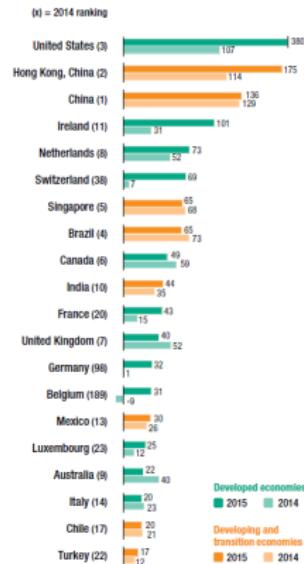
Figure I.3. | FDI inflows, by region, 2013–2015 (Billions of dollars)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

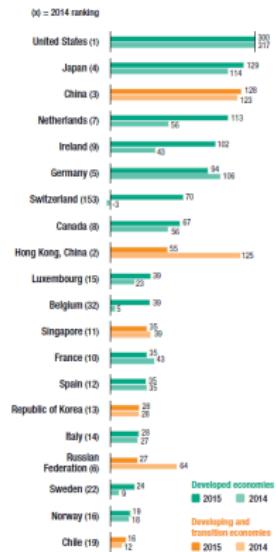
Global Foreign Direct Investment

Figure I.4. FDI inflows, top 20 host economies, 2014 and 2015 (billions of dollars)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/statistics).

Figure I.6. FDI outflows, top 20 home economies, 2014 and 2015 (billions of dollars)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/statistics).

Part 1 of Today's Class

- ▶ The open economy
 - ▶ Exchange rates

Nominal and Real Exchange Rates

- ▶ The nominal exchange rate
 - ▶ The relative price of the currencies of two countries.
 - ▶ Example: 1 dollar for 6.2096 RMB, and 1 RMB for 0.1610 dollar.
 - ▶ An appreciation or a strengthening of the currency: a rise.
 - ▶ An depreciation or a weakening of the currency: a fall.
- ▶ The real exchange rate, or the terms of trade
 - ▶ The relative price of goods of two countries.
 - ▶ Example: Big mac is 19RMB in China, and 4 dollars in U.S..
$$\text{Real Exchange Rate} = \frac{\text{Nominal Exchange Rate} * \text{Price of Domestic Good}}{\text{Price of Foreign Good}}$$
 - ▶ Example: $\frac{0.1610 \text{ dollar/RMB} * 19 \text{ RMB/big mac}}{4 \text{ dollar/big mac}} = 0.765$
 - ▶ Different result with different good or service.

Nominal and Real Exchange Rates

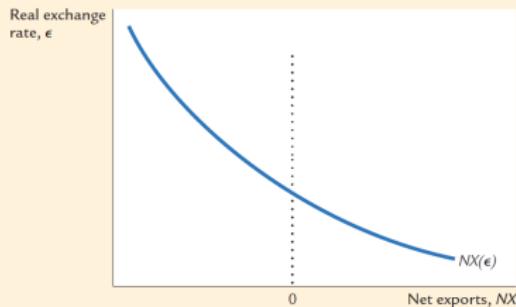
- ▶ Redefine the real exchange rate
 - ▶ Real Exchange Rate = Nominal Exchange Rate * Ratio of Prices
 - ▶ $\epsilon = e * (P/P^*)$
- ▶ Remark
 - ▶ If the real exchange rate is high, foreign goods are relatively cheap, and domestic goods are relatively expensive.
 - ▶ If the real exchange rate is low, foreign goods are relatively expensive, and domestic goods are relatively cheap.

Exchange Rates

- ▶ The real exchange rate and the trade balance
 - ▶ Net exports depends on the real exchange rate; $NX = NX(\epsilon)$
- ▶ Determinants of the real exchange rate
 - ▶ The real exchange rate is related to net exports.
 - ▶ Net exports equals to the net capital flow (saving – investment).
- ▶ Remark
 - ▶ At the equilibrium real exchange rate, the supply of dollars available from the net capital outflow balances the demand for dollars by foreigners buying our net exports.

Determinants of The Real Exchange Rate

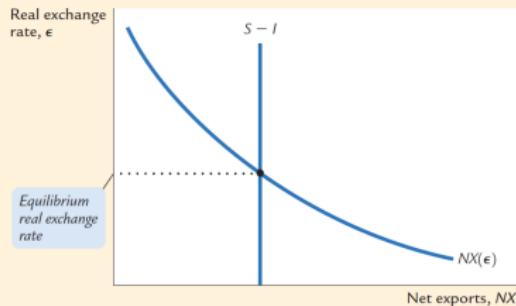
FIGURE 6-7



Net Exports and the Real Exchange Rate The figure shows the relationship between the real exchange rate and net exports: the lower the real exchange rate, the less expensive are domestic goods relative to foreign goods, and thus the greater are our net exports. Note that a portion of the horizontal axis measures negative values of NX : because imports can exceed exports, net exports can be less than zero.

Determinants of The Real Exchange Rate

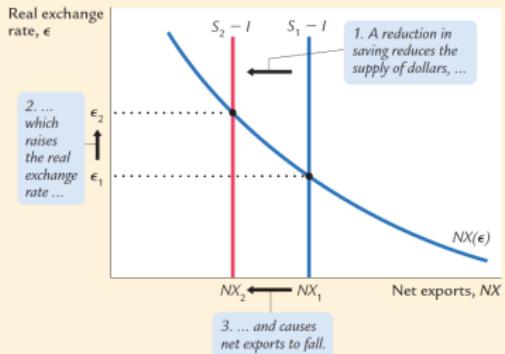
FIGURE 6-8



How the Real Exchange Rate Is Determined The real exchange rate is determined by the intersection of the vertical line representing saving minus investment and the downward-sloping net-exports schedule. At this intersection, the quantity of dollars supplied for the flow of capital abroad equals the quantity of dollars demanded for the net export of goods and services.

Effect of Fiscal Policy at Home

FIGURE 6-9

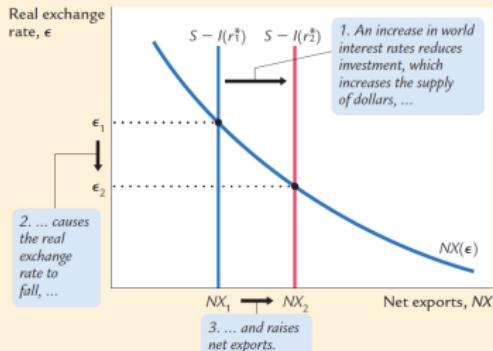


The Impact of Expansionary Fiscal Policy at Home on the Real Exchange Rate

Rate Expansionary fiscal policy at home, such as an increase in government purchases or a cut in taxes, reduces national saving. The fall in saving reduces the supply of dollars to be exchanged into foreign currency, from $S_1 - I$ to $S_2 - I$. This shift raises the equilibrium real exchange rate from ϵ_1 to ϵ_2 .

Effect of Fiscal Policy Abroad

FIGURE 6-10

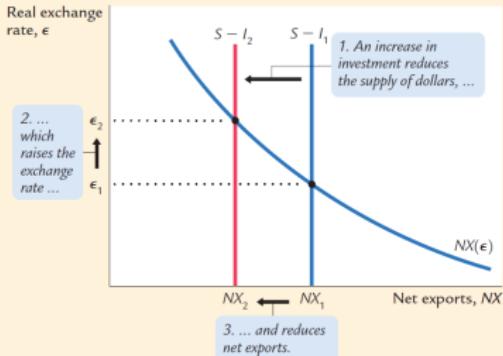


The Impact of Expansionary Fiscal Policy Abroad on the Real Exchange Rate

Expansionary fiscal policy abroad reduces world saving and raises the world interest rate from r_1^* to r_2^* . The increase in the world interest rate reduces investment at home, which in turn raises the supply of dollars to be exchanged into foreign currencies. As a result, the equilibrium real exchange rate falls from ϵ_1 to ϵ_2 .

Effect of Shifts in Investment

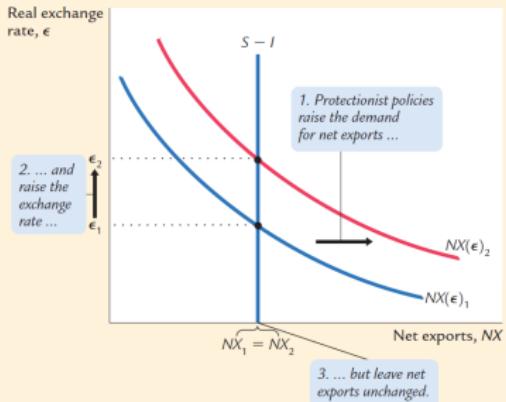
FIGURE 6-11



The Impact of an Increase in Investment Demand on the Real Exchange Rate An increase in investment demand raises the quantity of domestic investment from I_1 to I_2 . As a result, the supply of dollars to be exchanged into foreign currencies falls from $S - I_1$ to $S - I_2$. This fall in supply raises the equilibrium real exchange rate from ϵ_1 to ϵ_2 .

Effect of Trade Policies

FIGURE 6-12



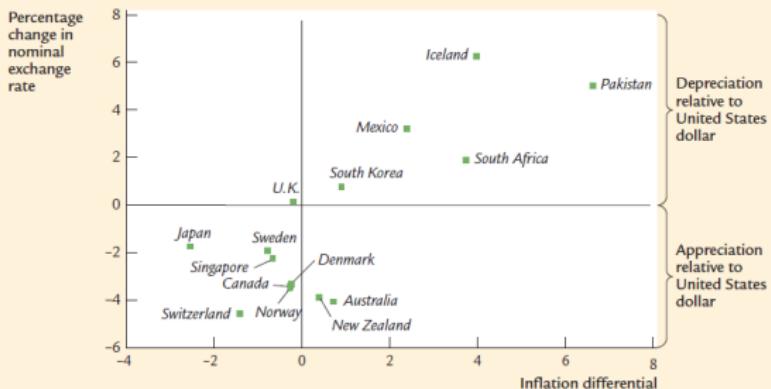
The Impact of Protectionist Trade Policies on the Real Exchange Rate A protectionist trade policy, such as a ban on imported cars, shifts the net-exports schedule from $NX(\epsilon)_1$ to $NX(\epsilon)_2$, which raises the real exchange rate from ϵ_1 to ϵ_2 . Notice that, despite the shift in the net-exports schedule, the equilibrium level of net exports is unchanged.

Determinants of the Nominal Exchange Rate

- ▶ Recall the relationship $e = \epsilon * (p^*/P)$
 - ▶ $\% \text{ change in } e = \% \text{ change in } \epsilon + \% \text{ change in } P^* - \% \text{ change in } P$
 - ▶ Replace the price change with inflation
 $\% \text{ change in } e = \% \text{ change in } \epsilon + (\pi^* - \pi)$
- ▶ Remark
 - ▶ High inflation implies depreciating currency.
 - ▶ If a country has a high rate of inflation relative to the U.S., a dollar will buy an increasing amount of the foreign currency over time.
 - ▶ If a country has a low rate of inflation relative to the U.S., a dollar will buy a decreasing amount of the foreign currency over time.

Inflation and Nominal Exchange Rates

FIGURE 6-13



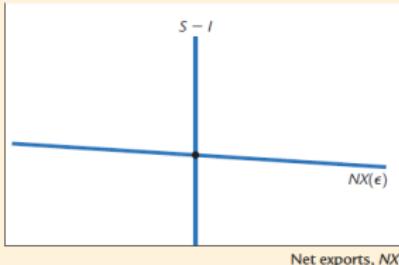
Inflation Differentials and the Exchange Rate This scatterplot shows the relationship between inflation and the nominal exchange rate. The horizontal axis shows the country's average inflation rate minus the U.S. average inflation rate over the period 2001–2010. The vertical axis is the average percentage change in the country's exchange rate (per U.S. dollar) over that period. This figure shows that countries with relatively high inflation tend to have depreciating currencies and that countries with relatively low inflation tend to have appreciating currencies.

Source: International Monetary Fund.

Purchasing-Power Parity

FIGURE 6-14

Real exchange
rate, ϵ

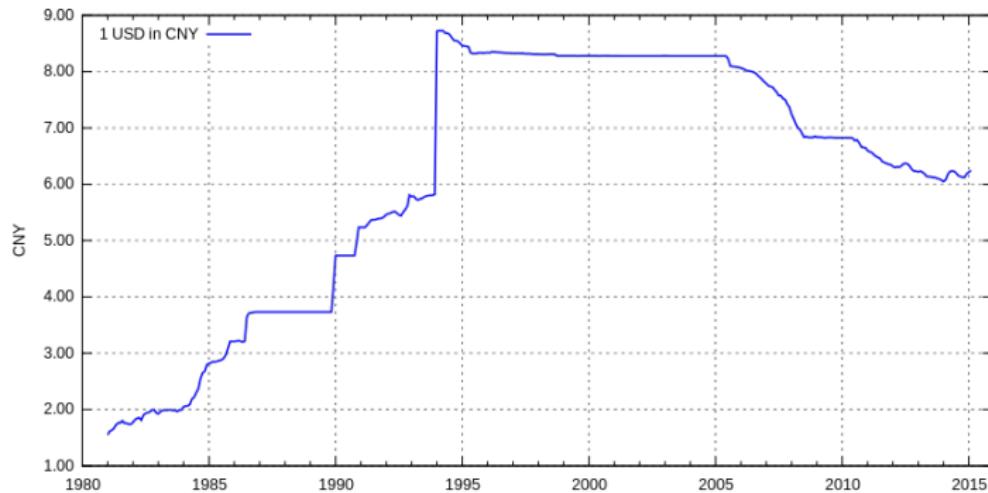


Purchasing-Power Parity The law of one price applied to the international marketplace suggests that net exports are highly sensitive to small movements in the real exchange rate. This high sensitivity is reflected here with a very flat net-exports schedule.

RMB and USD: Exchange Rate

- ▶ Pegged to the U.S. dollar
 - ▶ For most of its early history, the RMB was pegged to the U.S. dollar at 2.46 per USD.
 - ▶ The exchange rate increased from 1.50 in 1980 to 8.62 by 1994.
 - ▶ There is a peg of 8.27 per USD from 1997 to 2005.
- ▶ Depegged from the U.S. dollar
 - ▶ On July 21, 2005, the peg was finally lifted, which saw an immediate one-time RMB revaluation to 8.11 per USD.
- ▶ Managed floating exchange rate
 - ▶ It based on market supply and demand with reference to a basket of foreign currencies.
 - ▶ In July 2005, the daily trading price of the U.S. dollar against the RMB in the inter-bank foreign exchange market was allowed to float within a narrow band of 0.3% around the central parity published by the People's Bank of China, which is 2% since Mar 2014.

RMB and USD: Exchange Rate



Part 2 of Today's Lecture

- ▶ Unemployment
 - ▶ Job loss, Job finding and the natural rate of unemployment
 - ▶ Job search and frictional unemployment
 - ▶ Real wage rigidity and structural unemployment
 - ▶ Labor-market experience: the United States, Europe and China

Natural Rate of Unemployment

FIGURE 7-1



The Unemployment Rate and the Natural Rate of Unemployment in the United States

There is always some unemployment. The natural rate of unemployment is the average level around which the unemployment rate fluctuates. (The natural rate of unemployment for any particular month is estimated here by averaging all the unemployment rates from ten years earlier to ten years later. Future unemployment rates are set at 5.5 percent.)

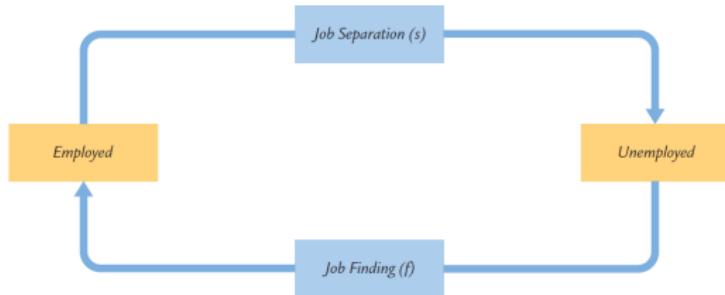
Source: Bureau of Labor Statistics.

The Transition between Employment and Unemployment

- ▶ The labor force L is the sum of employed E and unemployed U .
 - ▶ $L = E + U$
 - ▶ The rate is unemployment is U/L .
- ▶ The transition between employment and unemployment
 - ▶ The rate of separation s : the fraction of employed who lose or leave their job each month.
 - ▶ The rate job finding f : the fraction of unemployed individual who find a job.
 - ▶ Steady state: $fU = s(L - U)$ or $\frac{U}{L} = \frac{s}{s+f}$
- ▶ How to lower the unemployment rate
 - ▶ Reduce the rate of job separation or increase the rate of job finding.

The Transition between Employment and Unemployment

FIGURE 7-2



The Transitions Between Employment and Unemployment In every period, a fraction s of the employed lose their jobs, and a fraction f of the unemployed find jobs. The rates of job separation and job finding determine the rate of unemployment.

Part 2 of Today's Lecture

- ▶ Unemployment
 - ▶ Job search and frictional unemployment
 - ▶ Real wage rigidity and structural unemployment
 - ▶ Labor-market experience: the United States, Europe and China

Job Search and Frictional Unemployment

- ▶ Frictional Unemployment: the unemployment caused by the time it takes workers to search for a job.
- ▶ Causes of Frictional Unemployment
 - ▶ Sectoral shift: a change in the composition of demand among industries or regions.
 - ▶ The supply and demand for labor among firms is changing.
- ▶ Public policy and frictional unemployment
 - ▶ Unemployment insurance: unemployed workers can collect a fraction of their wages for a certain period after losing their jobs.
 - ▶ It reduces the rate of job finding and raises unemployment rate.
 - ▶ It leads to a better matching between workers and jobs.
- ▶ Reforms to the unemployment-insurance system
 - ▶ 100 percent experience rated or partially experience rated system.

Part 2 of Today's Lecture

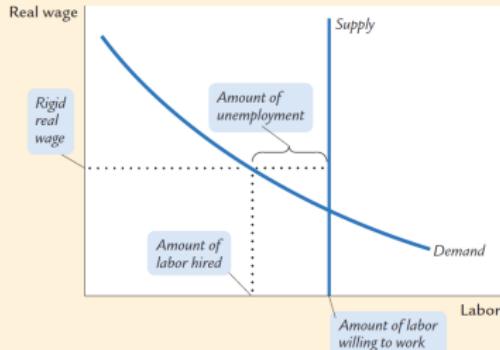
- ▶ Unemployment
 - ▶ Real wage rigidity and structural unemployment
 - ▶ Labor-market experience: the United States, Europe and China

Real-Wage Rigidity and Structural Unemployment

- ▶ Wage rigidity: the failure of wages to adjust to a level at which labor supply equals labor demand
- ▶ Structural unemployment: the unemployment results from wage rigidity and job rationing.
- ▶ Three causes of wage rigidities:
 - ▶ Minimum wage: a legal minimum on the wages.
 - ▶ Unions and collective bargaining: it works between union leaders and firm managers.
 - ▶ Efficiency-wage theories: a wage reduction would lower worker productivity and the firm's profit.

Real-Wage Rigidity and Structural Unemployment

FIGURE 7-3



Real-Wage Rigidity Leads to Job Rationing If the real wage is stuck above the equilibrium level, then the supply of labor exceeds the demand. The result is unemployment.

Facts about Minimum Wage Workers in U.S.

- ▶ 73 million American workers are paid hourly, 59% of all workers.
- ▶ Minimum-wage workers are more likely to be women than men.
- ▶ Minimum wage workers tend to be young.
- ▶ Minimum-wage workers tend to be less educated.
- ▶ Minimum-wage workers are more likely to be working part time.
- ▶ The leisure and hospitality industries are with the higher proportion of workers paid at or below the minimum wage.

Minimum Wage in China

2015年各地最低工资标准			
地区	月最低工资标准	小时最低工资标准	实施时间
深圳	2030	18.5	2015年3月1日
上海	2020	18	2015年4月1日
广东	1895	18.3	2015年5月1日
天津	1850	18.5	2015年4月1日
北京	1720	18.7	2015年4月1日
内蒙古	1640	13.3	2015年7月1日
山西	1620	17.7	2015年5月1日
山东	1600	16	2015年3月1日
四川	1500	15.7	2015年7月1日
陕西	1480	14.8	2015年5月1日
甘肃	1470	15.5	2015年4月1日
西藏	1400	13	2015年1月1日
湖南	1390	13.5	2015年1月1日
海南	1270	11.2	2015年1月1日

制表人：李金磊 单位：元



Union and Collective Bargaining

TABLE 7-1

Percent of Workers Covered by Collective Bargaining

South Korea	12%
United States	13
Japan	16
Turkey	24
Canada	32
Poland	35
United Kingdom	35
Switzerland	48
Israel	56
Australia	60
Russian Federation	62
Germany	63
Italy	80
Spain	80
Netherlands	82
Greece	85
Sweden	92
France	95
Belgium	96

Source: Danielle Venn, "Legislation, Collective Bargaining and Enforcement: Updating the OECD Employment Protection Indicators." OECD Social, Employment and Migration Working Papers, 2009.

Efficiency Wage theories

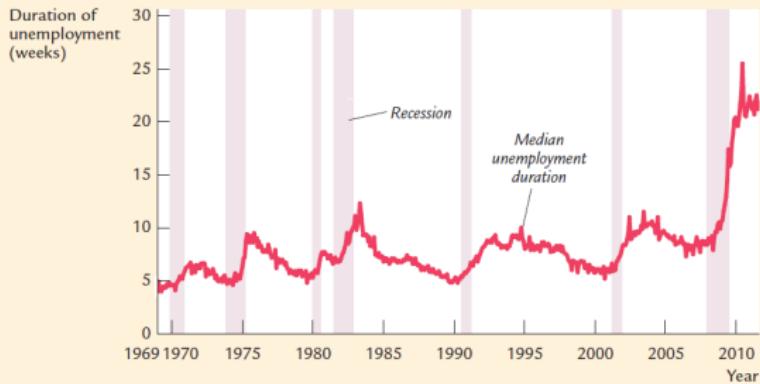
- ▶ In poorer countries, wages influence nutrition.
- ▶ High wages reduce labor turnover.
- ▶ Average quality of a firm's workforce depends on the wage it pays its employees.
- ▶ A high wage improves worker effort, since cost of getting fired is high.
- ▶ Example: Henry Ford started \$5 workday, when the prevailing wage was between \$2 and \$3 per day.

Part 2 of Today's Lecture

- ▶ Unemployment
 - ▶ Labor-market experience: the United States, Europe and China

U.S. Long-term Unemployment

FIGURE 7-4



The Median Duration of Unemployment The median duration of unemployment typically rises during recessions, shown as the shaded areas here, but its spike upward during the recession of 2008–2009 was unprecedented.

Variation in the Unemployment Rate

TABLE 7-2

Unemployment Rate by Demographic Group

Age	White Men	White Women	Black Men	Black Women
16-19	26.3	20.0	45.4	40.7
20 and over	8.9	7.2	17.3	12.8

Source: Bureau of Labor Statistics.

Alternative Measure of Labor Underutilization

TABLE 7-3

Alternative Measures of Labor Underutilization

Variable	Description	Rate
U-1	Persons unemployed 15 weeks or longer, as a percent of the civilian labor force (includes only very long-term unemployed)	5.4%
U-2	Job losers and persons who have completed temporary jobs, as a percent of the civilian labor force (excludes job leavers)	5.3
U-3	Total unemployed, as a percent of the civilian labor force (official unemployment rate)	9.1
U-4	Total unemployed, plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	9.7
U-5	Total unemployed plus all marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers	10.6
U-6	Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers	16.2

Note: *Marginally attached workers* are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. *Discouraged workers*, a subset of the marginally attached, have given a job-market-related reason for not currently looking for a job. *Persons employed part time for economic reasons* are those who want and are available for full-time work but have had to settle for a part-time schedule.

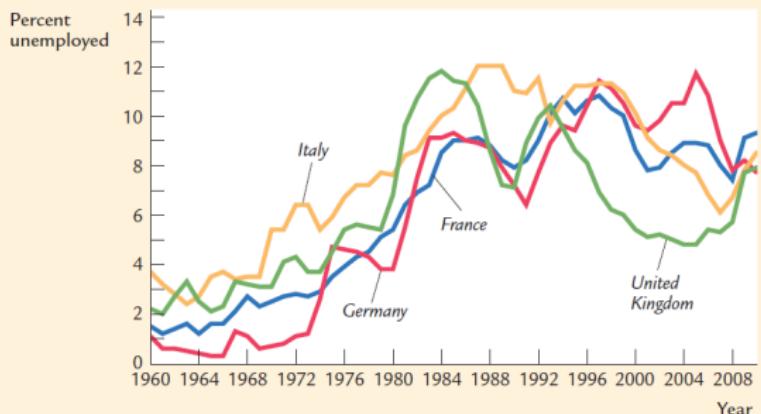
Source: U.S. Department of Labor. Data are for August 2011.

Laboar-Market Experience: Europe

- ▶ The rise in European unemployment
 - ▶ Generous benefits for the unemployed workers
 - ▶ Fall in demand for unskilled workers.
 - ▶ In U.S., this change in demand has been reflect in wages.
- ▶ Unemployment variation within Europe
 - ▶ National unemployment rates are correlated with labor-market policies and the role of unions.
- ▶ The rise of European leisure
 - ▶ Differences on tax systems, the underground economy, the role of unions, different preferences.

Unemployment in Europe

FIGURE 7-5

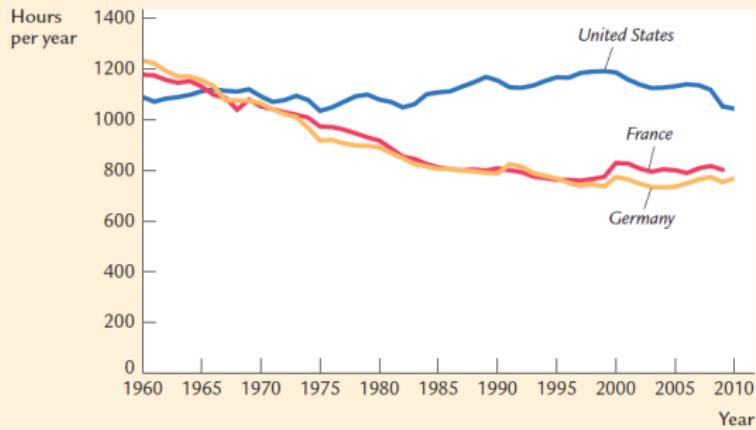


Unemployment in Europe This figure shows the unemployment rate in the four largest nations in Europe. The figure shows that the European unemployment rate has risen substantially over time, especially in France and Germany.

Source: Bureau of Labor Statistics.

The Rise of European Leisure

FIGURE 7-6



Annual Hours Worked per Person Over time, many Europeans have substantially reduced the number of hours they work, while typical Americans have not.

Sources: OECD Employment Database and Bureau of Labor Statistics. Calculated as the average annual hours actually worked per employed person multiplied by the employment rate.

Laboar-Market Experience: China

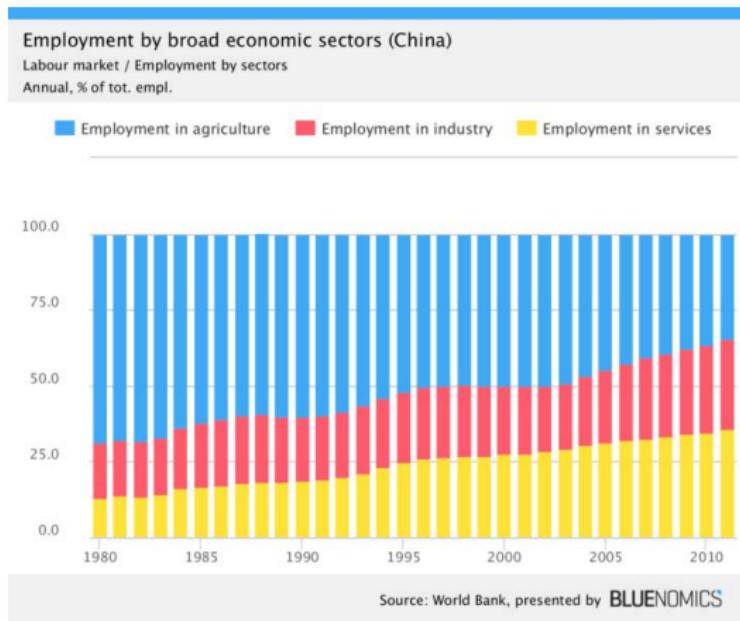
- ▶ Iron rice bowl: an occupation with guaranteed job security, as well as steady income and benefits.
 - ▶ People with iron rice bowls include military personnel, members of the civil service, and employees of various state run enterprises.
 - ▶ Child care, education, job placement, housing, subsistence, health care, and elder care were the responsibility of administered through state-owned enterprises and agricultural communes and collectives.
- ▶ Break the Iron Rice bowl
 - ▶ The reforms in 1980s dismantled the iron rice bowl, which meant it witnessed a rise in unemployment in the economy.
 - ▶ After Asian Crisis, Zhu Rongji saved the biggest SOEs and allowed thousands of other small and medium-sized ones to bankrupt.
 - ▶ Around 9 out of 10 new jobs in urban areas are created either by private companies or self-employed people, by Xinhua on 2016.

Laboar-Market Experience: China

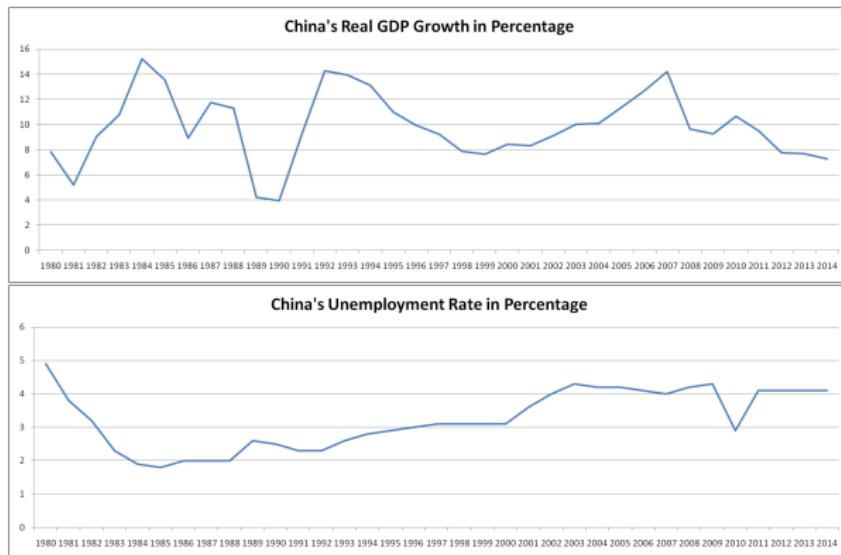
- ▶ Social welfare in China

- ▶ Welfare reforms since the late 1990s have included unemployment insurance, medical insurance, workers' compensation insurance, maternity benefits, communal pension funds, individual pension accounts, universal health care, and a carbon tax.
- ▶ A law approved February 2013 will mandate a nationwide minimum wage at 40% average urban salaries to be phased in fully by 2015.

Labour-Market Experience: China



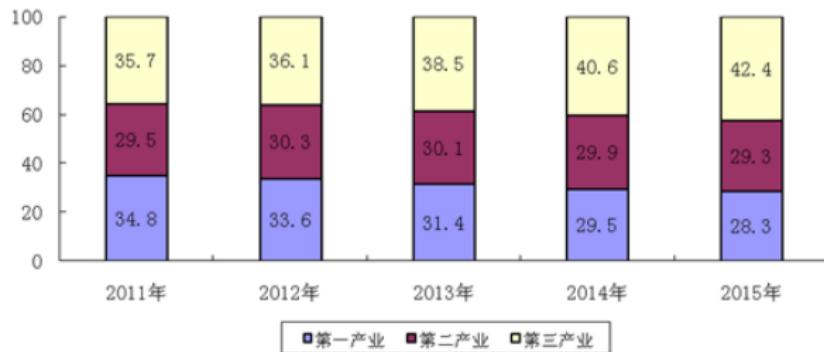
Laboar-Market Experience: China



Laboar-Market Experience: China

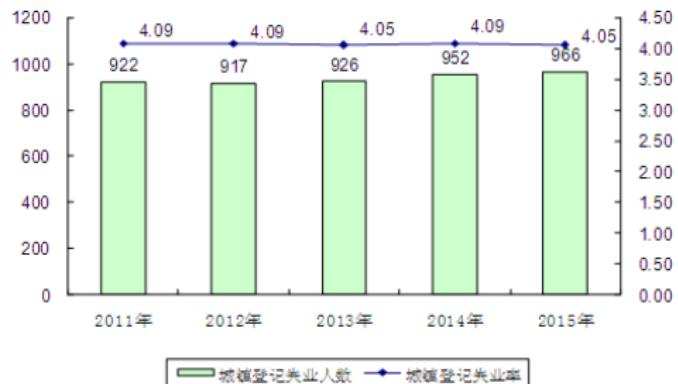
图 1 · 近五年全国就业人员产业构成情况

单位: %



Laboar-Market Experience: China

图 4 · 近五年城镇登记失业人数及登记失业率
单位: 万人, %



Laboar-Market Experience: China

图 5--近五年社会保险参保人数

单位：万人

