Capítulo 1

Presentation 3

1.1. Unemployment rate

- Employed: Currently working
- Unemployed: out of work and actively looking for a job.
- Labor force = Employed + Unemployed
- Unemplyment rate:

$$\text{Unemployment rate } = \frac{\text{Unemployed people}}{\text{Total labor force}} \times 100$$

1.1.1. Hidden unemployment

Mislabeled people:

- Part-time: temporary.
- Underemployed: economist working at mc donald's.
- Discouraged workers: those who have stopped looking for employment due to the lack of suitable positions available.
- *Extra Transition: person who quits their job to go to another one.

1.1.2. Labor force participation

Labor force participation rate: in proportion to all adults in a country how many people are in the labor force (can work).

$$\text{Labor force participation rate } = \frac{\text{Total labor force}}{\text{Total adult population}} \times 100$$

1.1.3. Patterns of unemployment

Unemployment moves up and down as the economy moves in and out of recessions and business cycles.

1.2. Unemployment facts

- Unemployment in a gender comparison are relatively equal, and they used to be lower for men.
- Unemployment tends to be higher in ages 16-19.

1.3. Cyclical unemployment

- Cyclical unemployment: closely related to the business cycle, higher unemployment during a recession is cyclical unemployment.

1.4. Unemployment and equilibrium in the labor market

- Labor market is the same as any other market with the subtle difference of the y-axis having wage rate and the x-axis having Quantity of labor.

1.4.1. Sticky wages

- The minimum wage creates sticky wages above the equilibrium.

1.5. Changes in unemployment on the long run

Natural rate of unemployment:

- Frictional unemployment: unemployment "between jobs".
- Structural unemployment: individuals lack skills valued by employers thus they are unemployed.

Full unemployment: when the unemployment rate is equal to the natural unemployment rate.

1.5.1. Productivity shifts and the natural rate of unemployment

- At some point the wage rate (based on productivity) will be grater than the demand of labor (grater than the optimal point).
- This increase in wage and demand will eventually create unemployment.

Capítulo 2

Presentation 4

2.1. Tracking inflation

- Inflation: general rise in the level of prices in an entire economy.
- Basket of goods and services: hypothetical group of items, with specified quantities of each one meant to represent a "typical" set of consumer purchases.
  - Used to calculate price levels.

2.2. Index Numbers

- Index number: a unit-free number derived from the price level over a number of years, which makes computing inflation rates easier, since the index number has values around 100.
  - It doesn't have any unit.
- Base year: arbitrary year whose value as an index number economists define as 100.

Inflation:

$$\text{Percentage change } = \frac{(\text{ Level in new year } - \text{ Level in prior year })}{\text{Level in prior year}} \times 100$$

2.3. Measure changes in the cost of living

- Consumer price index (CPI): to measure inflation government statisticians calculate based on the price level from a fixed basket of goods and services that represent an average consumer's purchases.
- Substitution bias:
- Quality / new goods bias:

2.4. The confusion over inflation

- The problem with inflation is that it doesn't sync in real time to measurements, this causes economic problems:
  - Unintended redistributions of purchasing power.
  - Blurred price signals.
  - Difficulties in long-term planning.
- There is a time lag in prices, wages and interest rates.

2.5. Real interest rate

Real interest paid (Fischer equation):

$$i_{rt} = r - \pi$$

- i_{rt} Long term nominal interest rate
- r: Nominal interest rate
- π: actual or expected rate of inflation or deflation