UNIVERSITY OF THE PEOPLE

ECON 1580-01-INTRODUCTION TO ECONOMICS-AY2024-T3

WRITTEN ASSIGNMENT UNIT 5

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Suppose an economy has 10,000 people who are not working but looking and available for work and 90,000 people who are working. What is its unemployment rate?

Now suppose 4,000 of the people looking for work get discouraged and give up their searches. What happens to the unemployment rate? Would you interpret this as good news for the economy or bad news? Explain.

1. Originally there were 10,000 people unemployed and 90,000 people employed.

So, the total labor force was 10,000 + 90,000 = 100,000

The unemployment rate is calculated as (unemployed people/total labor force) x 100.

So originally the unemployment rate was (10,000/100,000) x 100 = 10%

2. Now if 4,000 unemployed people gave up their job searches:

There are now only 10,000 - 4,000 = 6,000 unemployed people

But the total labor force shrinks to 90,000 + 6,000 = 96,000

The new unemployment rate is (6,000/96,000) x 100 = 6.3%

3. So, the unemployment rate went down when those 4,000 people gave up their searches. However, this is actually bad news for the economy. Those 4,000 people still do not have jobs but are no longer counted as "unemployed" since they gave up looking. The drop in the unemployment rate is misleading - it looks like fewer people are jobless even though they still do not have jobs. The drop makes the labor market look better than it is. So, while a lower

unemployment rate is normally good, in this case it is due to people leaving the labor force after failing to find jobs - which indicates weaknesses in the labor market and economy.