

3.3 Macroeconomic Objectives



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Macroeconomic Objectives

Macroeconomics is concerned with issues, objectives and policies that affect the whole economy.

The four major objectives are:

1. Full employment
2. Price-level stability
3. Economic growth
4. Sustainable level of debt



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Unemployment

Unemployment refers to people of working age who are actively looking for a job but who are not employed.

A low and/or falling **unemployment rate** is widely interpreted as a sign of **improved health of an economy**.



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Underemployment

Underemployment refers to people of working age who have part-time jobs but...

- Would prefer to have full-time jobs or
- Have jobs that do not make full use of their skills and education.

Example: Economist working as a taxi driver

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UNDEREMPLOYED WORKERS IN THE UK

3.05 million
workers are underemployed

This is:



I want more
working hours!

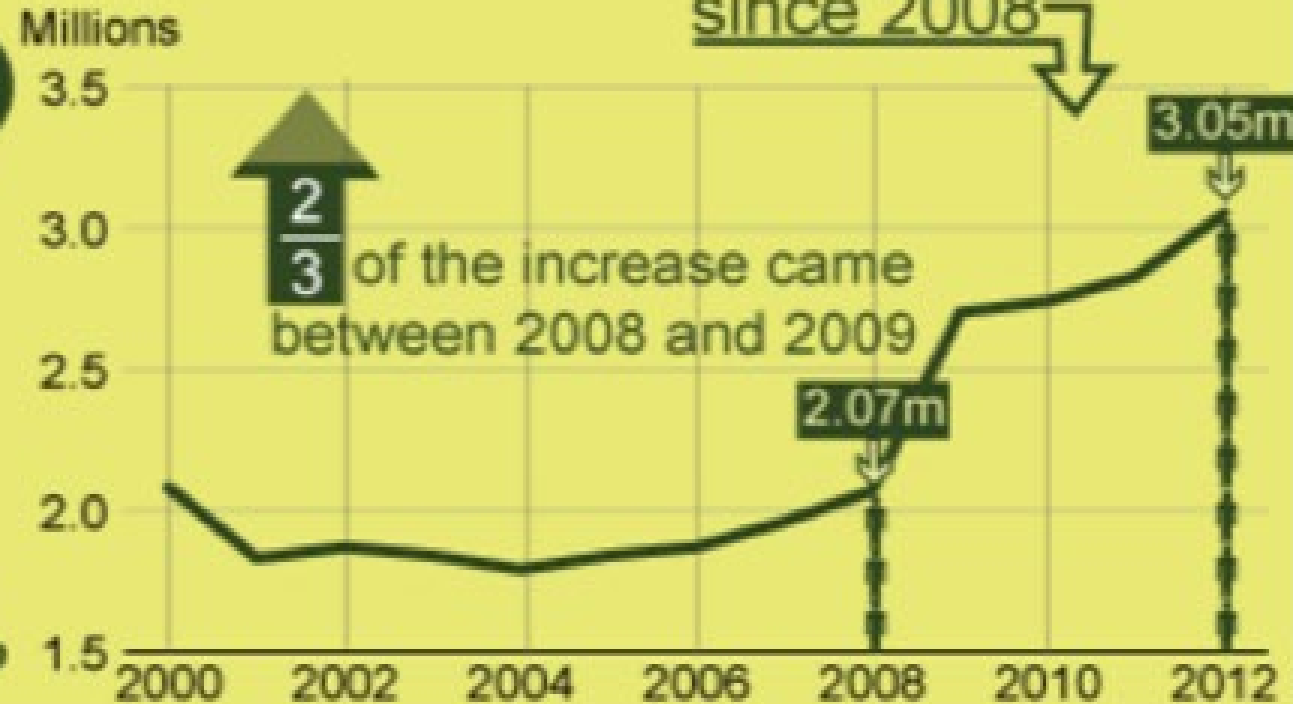
1 in every 10 UK workers

76%

of the 3.05 underemployed workers in 2012
wish to have more hours in their *current job*

980,000

extra underemployed workers
since 2008

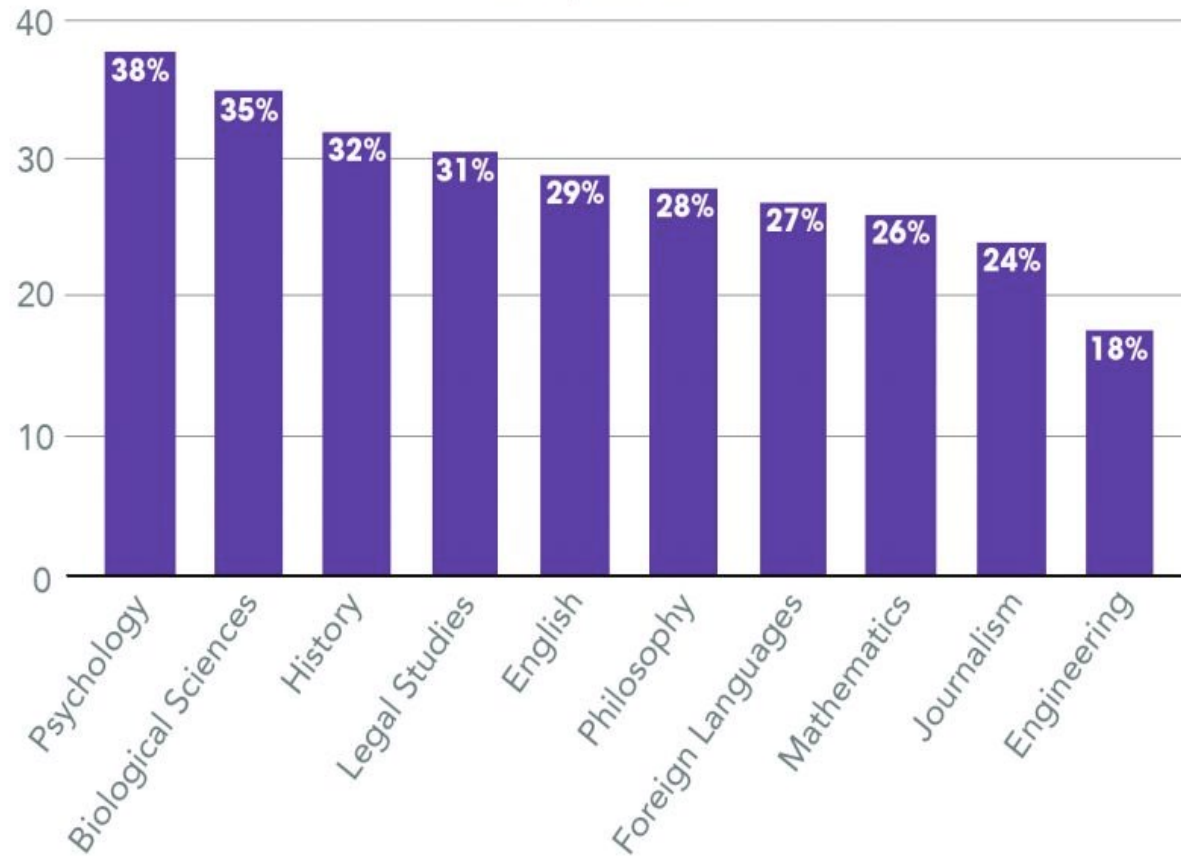


1. An underemployed worker is someone currently in employment working no more than 48 hours a week but wants to work more hours
2. Data refer to April to June in each year

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Underemployment by Major

Probability of graduates being underemployed in their first job and 5 years later



Source: Burning Glass Technologies



garyvarvel.com

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Underemployment

Underemployment refers to people of working age who have part-time jobs but...

- Would prefer to have full-time jobs or
- Have jobs that do not make full use of their skills and education.

Both unemployment and underemployment mean that an economy is wasting resources by not using them fully.

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Underemployment

Real world example: Uber drivers in Canada



A survey of 50,000 taxi drivers in Canada found that 200 were doctors and that 20% of the drivers had university first degrees or master's qualifications.

The work was carried out by the Canadian government who were looking at the lives of immigrants who enter Canada and end up being underemployed because it is difficult for them to find work in the profession they are qualified in.

The reason for this is often because of the cost of obtaining the formal qualifications needed to work in Canada. For an immigrant to work as a doctor in Canada they need to pay a significant sum to get the necessary credentials.

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Calculating Unemployment

Labour force is defined as the number of people who are employed plus the number of people of working age who are unemployed.

This **does not include** children, retired persons, students, all people who cannot work because of illness or disability and people who do not want to work.

$$\text{unemployment rate} = \frac{\text{number of unemployed}}{\text{labour force}} \times 100$$



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Unemployment in HK rises to two-year high

Business | Bloomberg and Avery Chen 19 Nov 2019



Hong Kong's resilient labor market is starting to crack amid months-long anti-government protests, with the overall unemployment rate rising to a two-year high of 3.1 percent for the August-October quarter.

The latest data is compared to 2.9 percent in the July-September quarter and higher than the 3.0 percent forecast in a Bloomberg survey of economists. Meanwhile, the underemployment rate inched up from 1.0 percent in July-September to 1.2 percent in August-October, data from the Census and Statistics Department showed.

The jobless rate in the consumption and tourism-related sector, which includes retail, accommodation and food services, rose to 5.0 percent for the August-October period, the highest since early 2017. Within this segment, the unemployment rate for those working in food and beverage service activities went up to 6.1 percent, the highest in more than six years.

With the protests showing no signs of ending, shopping malls, restaurants, and the subway system will likely continue to close early, said Ines Lam, an economist at CLSA.

"Giving workers unpaid leave and cutting hours is employers' first response to the downturn in business revenue," she said. "As I expect protest activities to continue for longer, Hong Kong's tourism, retail, and dining sectors are going to see further decline in businesses."

Source: www.thestandard.com.hk

Hong Kong's resilient labour market is starting to crack amid months-long anti-government protests, with the overall **unemployment rate rising to a two-year high of 3.1 percent for the August-October quarter.**

This means that 31 out of 1000 workers in Hong Kong's labour force are actively looking for a job but are not employed

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UNEMPLOYMENT
RATE

UNEMPLOYED



How does the unemployment rate compared to the **actual** number of people unemployed?

Hidden unemployment

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Calculating Unemployment

Limitations

Unemployment figures do not include:

- Discouraged workers
- **Underemployed workers**

Unemployment figures do not make a distinction between full-time and part-time or the type of work done.



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Calculating Unemployment

Limitations

Unemployment figures do not include:

- Discouraged workers
- Underemployed workers
- People on retraining programmes who previously lose their jobs



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Calculating Unemployment

Limitations

Unemployment figures do not include:

- People who retire early although they would rather be working
- People in the **underground economy**

The portion of the economy that is unregistered, legally unregulated and not reported to tax authorities.



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Calculating Unemployment

Limitations

It does not account for differences in unemployment that often arise among different **population groups** in society.

Unemployment may differ by:

- Region
- Gender
- Ethnic groups
- Age
- Occupation
- Education



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Consequences of Unemployment

Economic Costs

- A loss of real output (real GDP)
- A loss of income for unemployed workers
- A loss of tax revenue for the government
- Costs to the government of unemployment benefits
- Costs to the government dealing with social problems

Opportunity costs:

Less tax revenue left over to pay for government-provided goods and services such as public goods and merit goods.

Social Costs:

- Higher crime rates
- Loss of self-esteem
- Psychological stress
- Family tensions
- Lower levels of health

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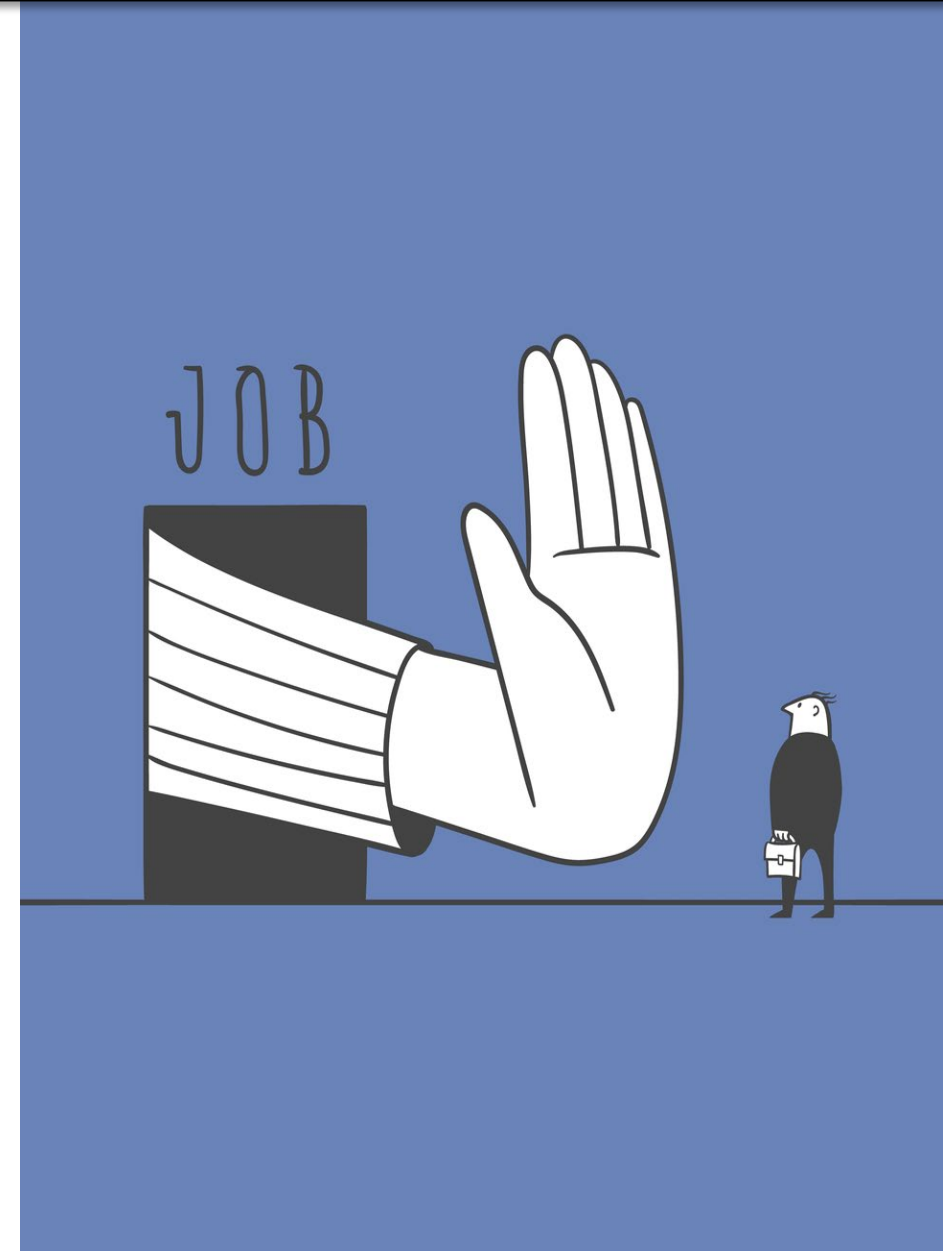
Consequences of Unemployment

Economic Costs

- Larger deficit or smaller budget surplus
- More unequal distribution of income
- Difficulties finding work in the future

Personal and social costs

- Personal problems (loss of self-esteem and depression)
- Greater social problems



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TYPES OF UNEMPLOYMENT

Structural | Frictional | Seasonal | Cyclical

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Structural Unemployment

Structural unemployment occurs as a result of...

- Changes in demand for particular types of labour skills

Example: Technological changes

Technology Skills in Demand

Data Engineering

SEO/SEM Marketing

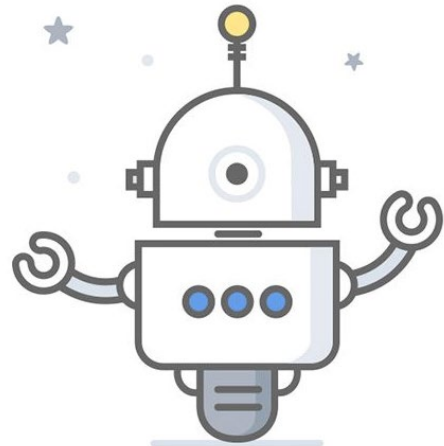
Cloud Computing



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Jobs that will disappear in the next 20 years due to AI

1. Drivers
2. Farmers
3. Printers
4. Cashiers
5. Travel Agents
6. Bank Tellers
7. Telemarketers
8. Stock Traders
9. Construction Workers
10. Fast Food Workers



The coal industry is shrinking — here's what miners need for a just transition

Ann Eisenberg

Thursday, December 5, 2019 - 12:00am

Source: www.greenbiz.com



Murray Energy, one of the biggest private U.S. coal companies, has become the [fifth coal company to file for bankruptcy in 2019](#). Union leaders and many elected officials worry that in addition to the 7,000 miners on Murray's payroll, this step could threaten the solvency of the United Mine Workers of America pension fund, which supports [over 100,000 retired miners and fully vested workers](#).

Whether people support or oppose the Trump administration's efforts to [prop up the coal industry](#), one point of agreement is that shifting from coal to cleaner fuels threatens [struggling coal-dependent communities](#). Murray Energy's bankruptcy is the latest reminder that it is past time to discuss a just transition for coal miners.

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Structural Unemployment

Structural unemployment occurs as a result of...

- Changes in demand for particular types of labour skills
- **Changes in the geographical location of industries**

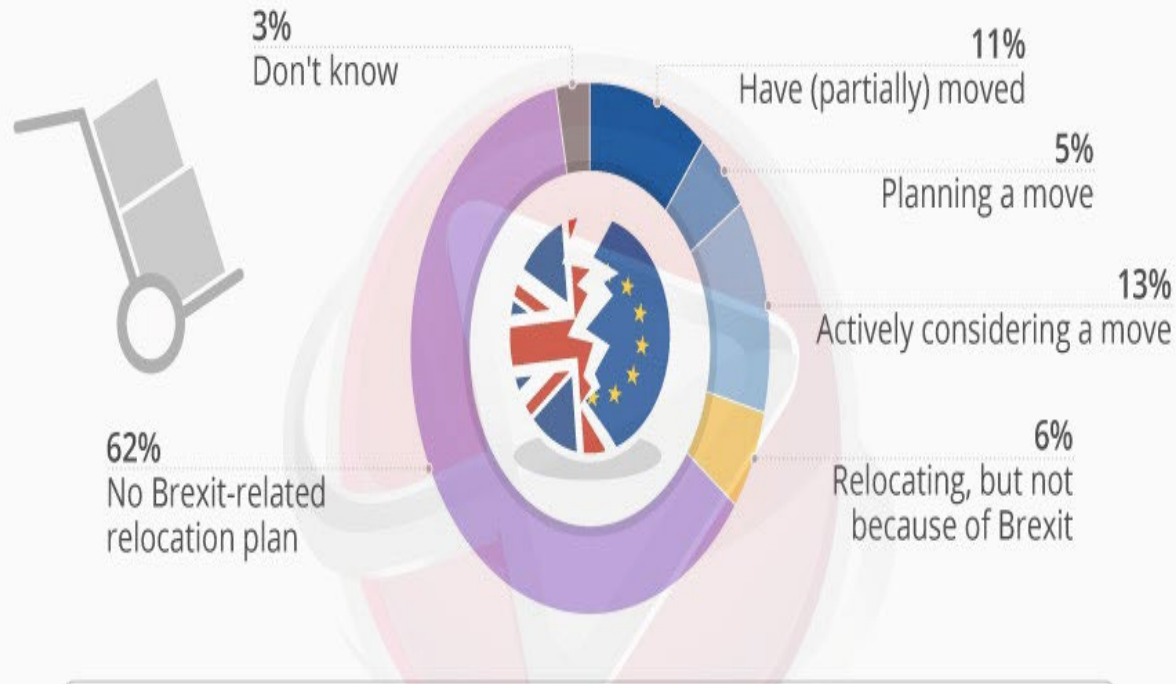
Example: Firms relocating because of Brexit



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Nearly a Third of UK Companies Considering Brexit Move

Survey answers among 1,200 companies about relocation plans



Percentage of companies considering a move



Dyson to move global HQ to historic Singapore building

29 November 2019

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Dyson has chosen the historic St James Power Station as the site of its new global headquarters in Singapore.

CEO Jim Rowan said the new location would be "a hive for our research and development endeavours".

The firm, headed by British inventor Sir James Dyson, said in January that it was moving its HQ out of the UK to Asia.

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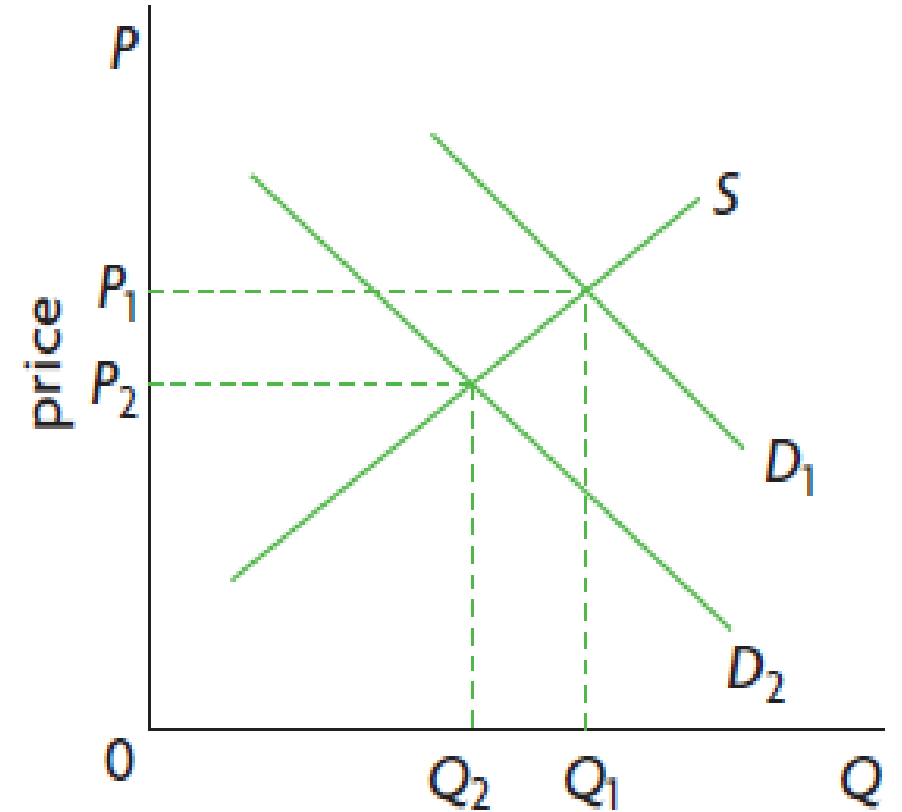
Structural Unemployment

Structural unemployment occurs as a result of...

- Changes in demand for particular types of labour skills
- Changes in the geographical location of industries

Fall in demand for a product (**a shift from D_1 to D_2**) results in a smaller quantity supplied (**Q_1 to Q_2**)

Workers who lack skills to find a job in another industry or workers who cannot relocate become **structurally unemployed**



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Structural Unemployment

Structural unemployment occurs as a result of...

- Changes in demand for particular types of labour skills
- Changes in the geographical location of industries
- **Labour market rigidities**

Factors preventing the forces of supply and demand from operating in the labour market.



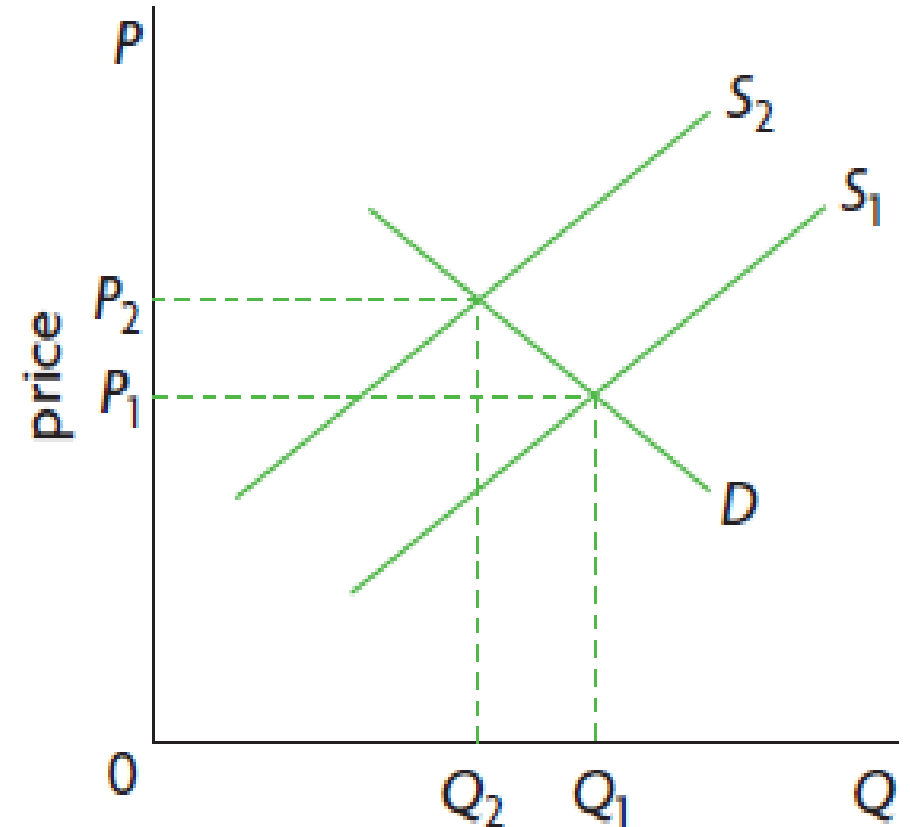
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Structural Unemployment

Labour rigidities can include:

- **Minimum wage legislation**
- **Labour union activities and wage bargaining with employers**
- **Employment protection laws**

These factors lead to **higher costs of production**.
Leading to a smaller quantity of output (**Q1 to Q2**)



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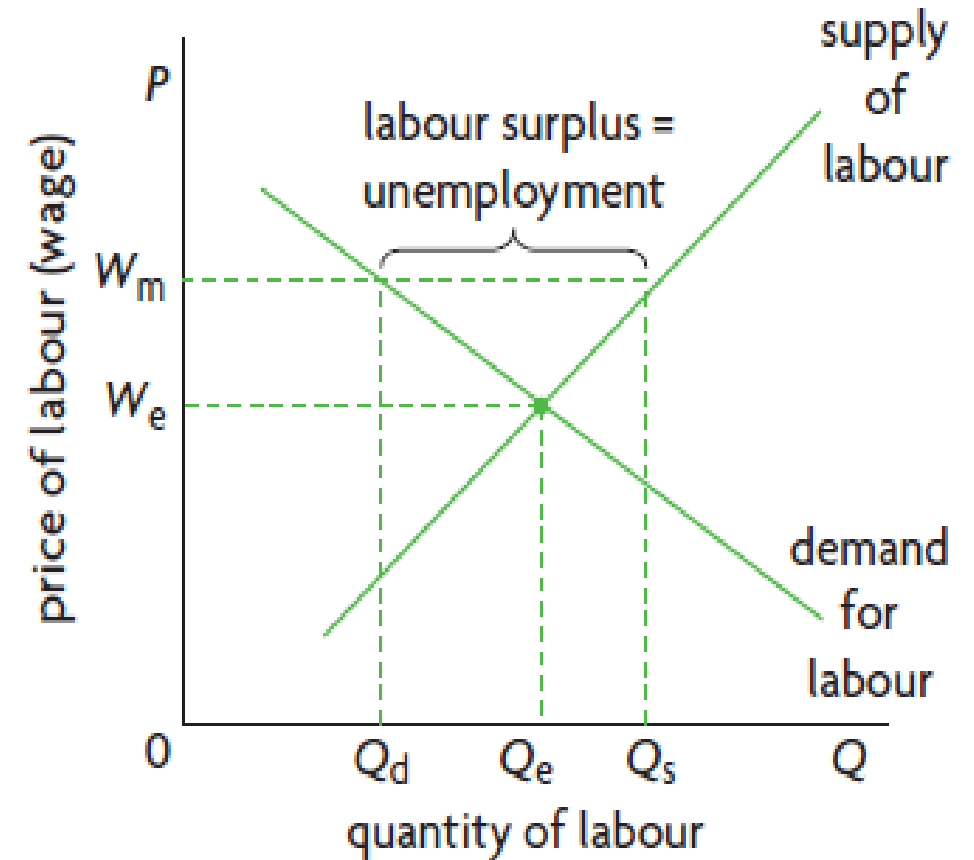
Structural Unemployment

Labour rigidities can include:

- Minimum wage legislation
- Labour union activities and wage bargaining with employers

Factors leading to higher than equilibrium wage can be shown in a labour market diagram.

Unemployment of labour equal to $Q_s - Q_d$



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Structural Unemployment

Structural unemployment occurs as a result of...

- Changes in demand for particular types of labour skills
- Changes in the geographical location of industries
- Labour market rigidities

Structural unemployment tends to be long-term and unavoidable in any growing economy.



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Structural Unemployment

Real world example: Kodak



Some people in the camera market called it the "Kodak moment" when in 2012 the giant US camera and film manufacturer finally closed its doors and filed for bankruptcy.

The camera business dominated photography for much of the next 100 years since it started but it struggled to adapt to digital photography. It was the emergence of smartphones with high quality cameras that was the final blow for the firm.

The failure of the firm led to the closure of 13 factories and 130 processing labs along with 47,000 job losses. Kodak is an example of how structural unemployment occurs when a market changes because of advances in technology.

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TYPES OF UNEMPLOYMENT

Structural | **Frictional** | Seasonal | Cyclical

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Frictional Unemployment

Frictional unemployment occurs when workers are between jobs.

Workers may leave their job because they:

- Have been fired
- Their employer went out of business
- Are in search of a better job
- Waiting to start a new job



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Frictional Unemployment

Frictional unemployment occurs when workers are between jobs.

This type of unemployment is inevitable in a growing, changing economy.

Incomplete information between workers and employers also contributes to **frictional unemployment**.



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TYPES OF UNEMPLOYMENT

Structural | Frictional | **Seasonal** | Cyclical

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Seasonal Unemployment

Seasonal unemployment occurs when the demand for labour in certain industries changes on a seasonal basis because of variation in needs.

 **In pairs or small groups...**

Brainstorm a list of seasonal jobs

- Lifeguards
- Santa
- Tour guides
- Ski coach
- Gardeners
- Amusement parks



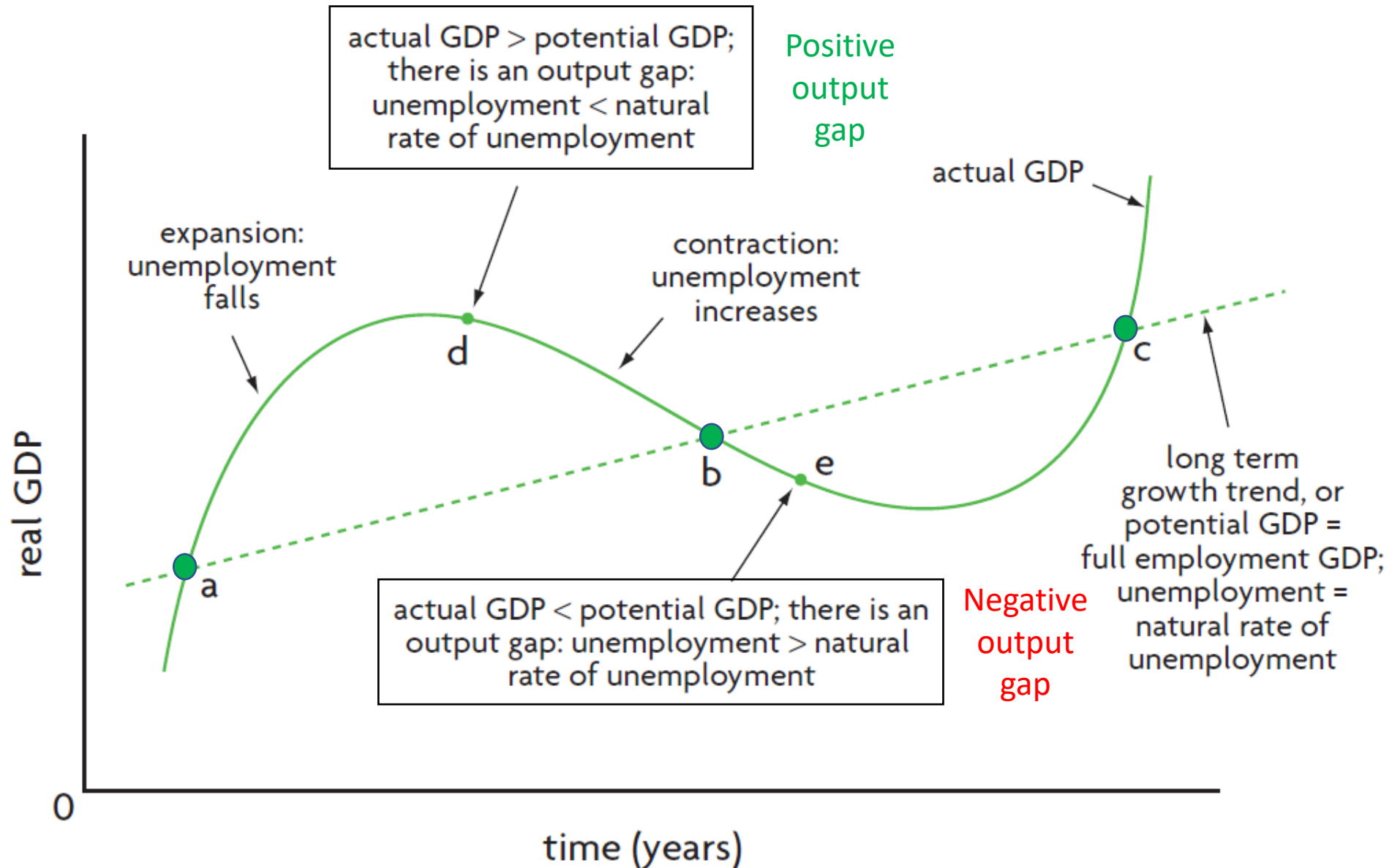
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TYPES OF UNEMPLOYMENT

Structural | Frictional | Seasonal | **Cyclical**

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Cyclical Unemployment

Cyclical unemployment occurs during the downturns of the business cycle, when the economy is in a **recessionary gap**.

This happens when the economy is producing less than its potential output.

Also known as **demand-deficient unemployment** as it arises from a declining or a low aggregate demand (AD)



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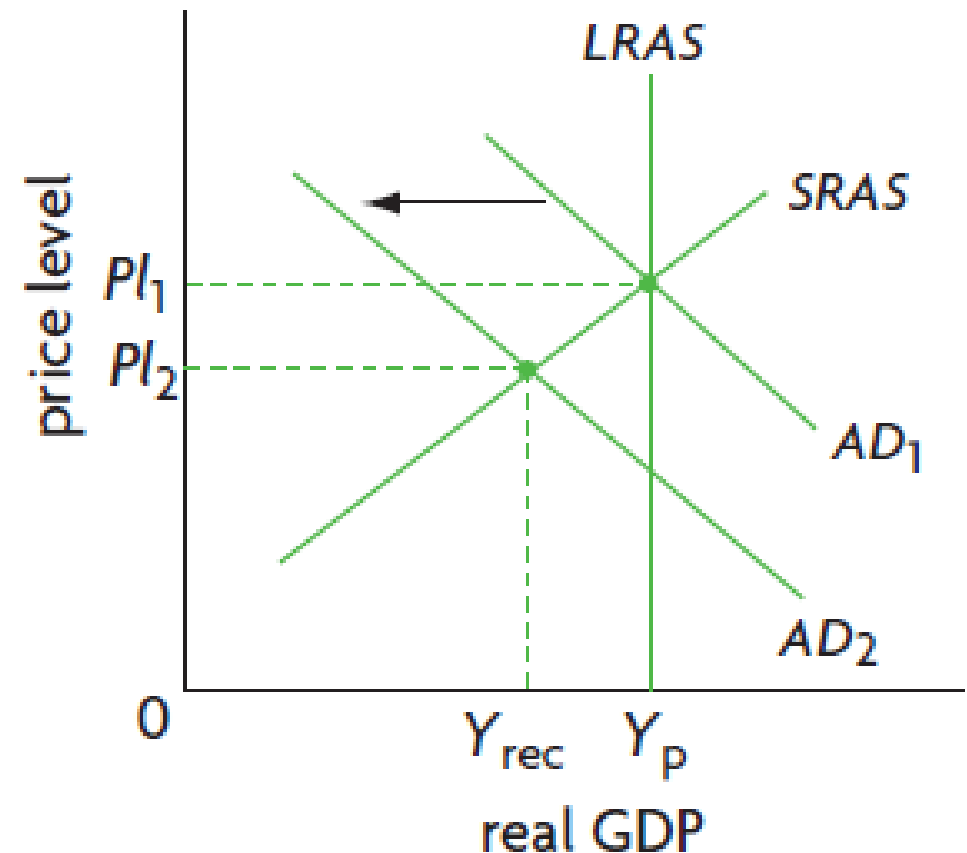
Cyclical Unemployment

Cyclical unemployment occurs during the downturns of the business cycle, when the economy is in a **recessionary gap**.

As real GDP falls due to a fall in aggregate demand (**AD1 to AD2**), firms lay off workers.

The recessionary gap creates **cyclical unemployment** as real output falls to **Y_{rec}**.

The Monetarist/New Classical Model



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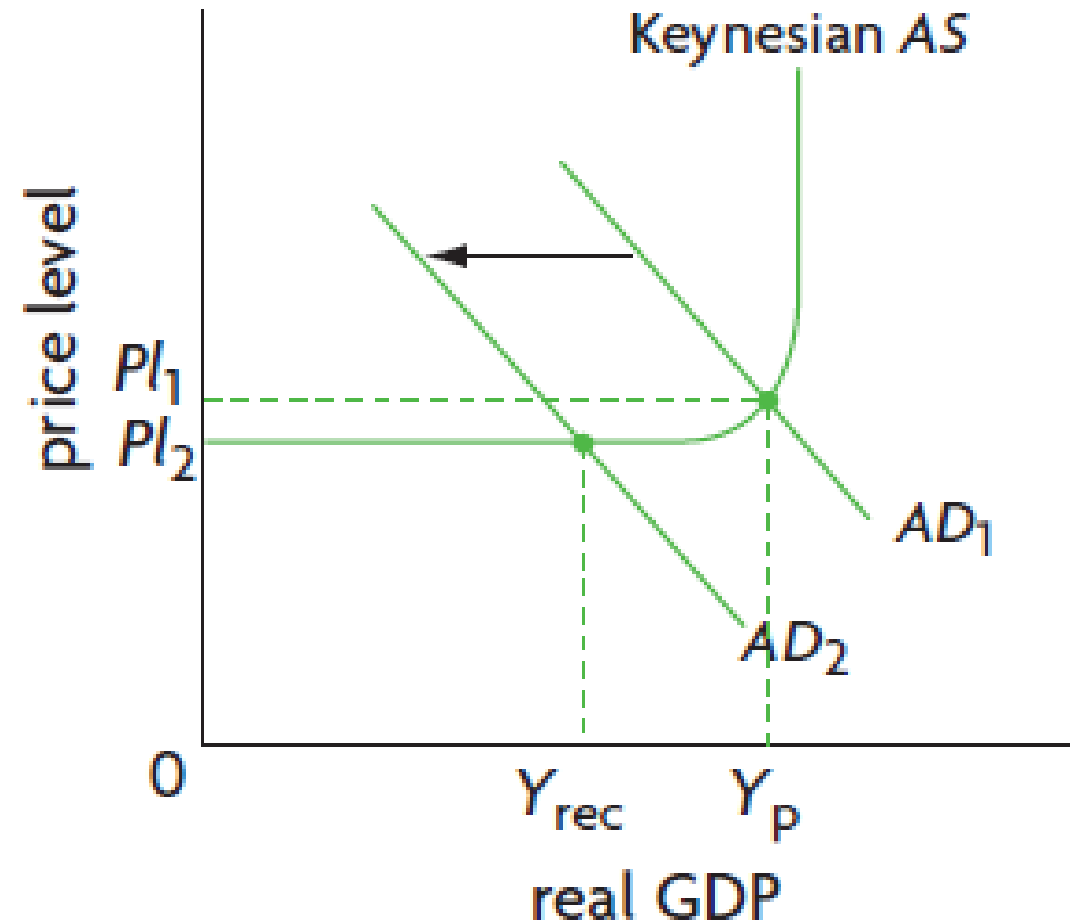
Cyclical Unemployment

Cyclical unemployment occurs during the downturns of the business cycle, when the economy is in a **recessionary gap**.

As real GDP falls due to a fall in aggregate demand (**AD₁ to AD₂**), firms lay off workers.

The recessionary gap creates **cyclical unemployment** as real output falls to **Y_{rec}**.

The Keynesian Model



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