UNEMPLOYMENT AND NATIONAL INCOME

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UNEMPLOYMENT AND NATIONAL INCOME

LABOUR AND UNEMPLOYMENT

Labour Market may be defined as an organization in which buyers and sellers of labour are in close contact.

- It is where the wages and conditions of service are stated and agreed upon.

- The Concept of Labour Force:

- Labour refers to all human efforts used in the production of goods and services.

- It is the total number of the employed, the self-employed and the unemployed.

- That is, those who are working and those who are looking for work.

- Labour force can also be described as the numbers of people allowed by law to work.

- The Labour force falls into the age bracket of 18-65 years.

DEMAND FOR LABOUR.

- Demand for labour may be defined as the **total number of workers** that are engaged by employers at a particular time.

- **Factors that determine the Demand for Labour.**

- Demand for good and services. Demand for labour can be stimulated by an increase in the demand for good and services.

- Expansion of purchasing power. When the purchasing power expands as a result of increase in wages, the demand for labour increases and vice versa.

- The market size: The size of the market for the goods and services produced determines the demand for labour.

FACTORS THAT DETERMINE THE DEMAND FOR LABOUR.

- **Rate of substitution**. Demand for labour is affected by the availability of possible substitutes, such as machines etc. that can actually do the job of labour.
- Labour efficiency. If labour efficiency is high, there would be high propensity for producers to hire more labour and vice versa.
- The price size of labour (wage rate).
- The tastes of consumer, which define their trade-off between leisure and work.
- The size of population.
- The labour force participation rate.
- The occupational, educational and geographical distribution of the labour force.

FACTORS THAT DETERMINE THE DEMAND FOR LABOUR.

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- **Efficiency of Labour.**

- Efficiency of labour may be defined as the ability of labour to increase output without increasing the quantity of labour.

- Efficiency of labour is actually refers to an increase in the level of production per capital.

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- **Factors that determine variation in wages**.

- (i) Difference in hours of work:

- (ii) Difference in the cost of training

- (iii) Job **d**emand, some jobs demand a very high sense of responsibility. People in such occupations are paid higher.

- **(iv).** Government policies**:**

- **(v) Scarcity** of Labour Supply**:**

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- **Types of Wages.**

- **Nominal wage:** This can be described as the total amount of money a labour is paid at a particular period of time.

- **Real wage:** This means the purchasing power of labour. It is the amount of goods and services the labour can use his money to buy.

SUPPLY OF LABOUR.

- Supply of labour may be defined as the total number of men, women and children of working age in a country.

- Supply of labour can also be described as services of labour available for production or available in the labour market.

- **Factors that Determine Supply of Labour.**

- Age distribution of population.

- Population: The size of the population is directly related to the supply of labour.

- The reward for labour

- Number of hours worked

FACTORS AFFECTING THE SIZE OF LABOUR FORCE.

- The size of a country's population: The higher the size of the population the higher the amount of labour that would be available in the labour force.
- Total number of labour force willing to work
- Mandatory age of retirement
- The age distribution of the population.
- The number of disabled and sick persons of working age.
- School leaving age
- Number of those retiring before the retirement age
- The number of working women
- Number of working hours.

CONCEPT OF UNEMPLOYMENT

- **Unemployment** is **defined** as a situation where someone of working age is not able to get a job. It is a condition that occurs when a person who is willing and actively searching for employment is unable to find one.

- The inability of labour to move creates unemployment.

- This unemployment cannot be separated from labour

- **Types of unemployment**

- **(i) Cyclical Unemployment:** Cyclical unemployment is caused by declining demand. It is the main cause of high unemployment rates. Its caused by a downturn in the business cycle. This is the most serious of all types of unemployment because it affects nearly all the industries at the same time. It's part of the natural rise and fall of economic growth that occurs over time. Cyclical unemployment is temporary and depends on the length of economic contractions caused by a recession.

- Cyclical Unemployment Rate = Unemployment Rate at Peak minus Unemployment Rate at Trough

- Cyclical unemployment rate = aggregate unemployment rate minus structural, frictional, and seasonal unemployment rates

- compare the unemployment rate for recent college graduates with the unemployment rate overall. If the recent graduate rate is similar to the overall rate, then most of the nation's unemployment is cyclical

CONCEPT OF UNEMPLOYMENT

- (ii) **Frictional Unemployment:** Frictional unemployment is also known as search unemployment. Frictional unemployment is caused by temporary transitions in workers' lives, such as when a worker moves to a new city and has to find a new job. Frictional unemployment also includes people just entering the labor force, such as freshly graduated college students. It is the most common cause of unemployment, and it is always in effect in an economy.

- (iii) **Classical unemployment**: Classical unemployment occurs when real wages are kept above the market-clearing wage rate, leading to a surplus of labour supplied. Classical unemployment is sometimes known as real wage unemployment because it refers to real wages being too high.

CONCEPT OF UNEMPLOYMENT

- (iv) **Structural Unemployment:** This type of unemployment occurs due to technological progress. The immediate effect of labour saving machinery is to make some workers redundant, thereby causing unemployment. It is an unemployment that occurs when workers are not qualified for the jobs that are available. Workers in this case are often out of work for much longer periods of time and often require retraining.

   (v) Seasonal Unemployment: This type of unemployment occurs in some kinds of work. Industries where seasonal unemployment is common include farming, tourism, and construction. For instance, bad weather could cause a temporary suspension of work in the construction industries which at that time renders the worker redundant with a resultant effect of unemployment.

- (vi) **Residual Unemployment**. This occurs due to all other causes. This includes those people termed as unemployable due to ill health or disability.

CAUSES OF UNEMPLOYMENT

- **(i) Lack of industrialization:** when a country is not industrialized, it has limited employment opportunity; this makes it difficult for the available labour to be fully absorbed.- corruption, **negligence of agric sector** and **other natural resources**

- **(ii) Over Population:** This is one of the major causes of unemployment. It is an indication that supply is higher than demand.

- **(iii) Lack of development plans:** Some countries do not have a functional development plan and this creates a lot of problems, as the government does not know how to make provision for the labour force

- **(iv) Geographical immobility of labour:** In some cases, workers finds it very difficult to move from one geographical area to another and this may result in unemployment.

- **(v) High Cost of Education:** In most developing countries, the cost of acquiring education is very high, people can't afford it and be engaged in skilled job, hence unemployment

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CONSEQUENCES OF UNEMPLOYMENT

- i) **Social problem:** Unemployment increases crime rate in a country

- (ii) **Migration:** When people are not engaged in meaningful employment in a particular area, they would be forced to move to other areas in search of jobs

- (iii) **Threat to Peace and stability:** If people are not employed, there is the tendency for them to engage in activities that will create instability/insecurity and a break down of law and order is very high.

- (iv) **Reduction in investment:** Unemployment reduces the propensity to invest in a country.

- (v) **High Rate of dependency:** Unemployment increases the rate of dependency.

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NATIONAL INCOME,GROSS NATIONAL PRODUCT, GROSS DOMESTIC PRODUCT

- National Income: The total amount of goods and services (in value terms) available to the people over a given period of time which is usually a year. It is the total value of final output all new goods and services produced by a country in a given year.

- Gross National Product: The value of goods and services produced by the nationals of the country whether currently residing in the country or living abroad

- Gross Domestic Product: The value of goods and services produced by those residing in a country irrespective of their nationality.

DISPOSABLE INCOME, PERSONAL INCOME,TRANSFER PAYMENT

- Disposable income: This is calculated by deducting taxes from personal income.
- Disposable income = Personal income - Taxes

- Personal income: This is the current income of households or persons from all sources which include receipts such as transfer payments from which no productive services are made by recipients.

- Transfer payment: Money given by the government to its citizens. Examples include social security, unemployment compensation and welfare.

METHODS OF MEASUREMENT OF NATIONAL INCOME

- There are 3 methods of measurements namely:

- 1. **Output Method**- This is obtained by adding the value of all goods and services produced by all sectors of the economy during the year. Only final goods and services are included. Intermediate goods and services are excluded to avoid double counting.

- 2. **Expenditure Approach**-This is obtained by adding the spending on all final goods and services produced in the economy.

- 3. **Income Approach :** This is done by adding up all the income paid out to the owners of factors of production i.e rent for land, interest for capital, salaries and wages for labour and profit for management.

PROBLEMS OF MEASURING NATIONAL INCOME

- Products to be included
- Excluded market transactions
- Valuation of products
- Stock appreciation
- Depreciation

- **Uses of National Income Statistics**
- Measuring the level of production in an economy at a point in time.
- Measuring the standard of living of different countries using per capita income

     Per capita income = National income/population size.

- Planning and Policy formulation

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Problem with National income measurement

- (i) **Double Counting**: For example, a peasant sells wheat worth 2000 Naira to a flour mill which sells wheat flour to the wholesaler and the wholesaler sells it to the retailer who, in turn, sells it to the customers. If each time, this wheat or its flour is taken into consideration, it will work out to 8000 Naira, whereas, in actuality, there is only an increase of 2000 Naira in the national income

- (ii) **Marketability of Goods:** A problem arises in connection with goods and services that are not exchanged through the market. Conventionally, items that do not enter the market are included. (a) Rent is imputed to owner-occupied houses.
(b) Value is also imputed to food produced and consumed on the farm.
(c) Housewives' services are excluded but services of maidservants and washer-men are included.

Problem with National income measurement

- (iii) **Price Level Changes:** National income is measured in terms of money whose value changes from time to time. It is, therefore, difficult to make a stable valuation of national income. This problem is dealt with by expressing national income estimates in real terms in constant prices.

- (iv) **National Income records Legal Incomes of Goods and Services:** This means illegal incomes are excluded. This may pose a practical problem to the national income accountants since some illegal incomes may find their way into the national income.

- (v) **Depreciation:** Capital stock wears and tears when used to produce goods or to render services. We account for this as depreciation or capital allowance. To arrive at NNP, depreciation is subtracted from GNP. The problem here is how to accurately estimate depreciation. If the value of depreciation is overestimated or underestimated national income will be invariably affected.

Problem with National income measurement

- (vi) **Inadequate Statistical Data:** One basic problem of estimating national income is the lack of statistical data. This problem is more pronounced in developing countries like Ghana and Nigeria. Individuals, business firms and the government at times do not keep proper records of incomes, output, and expenditure.