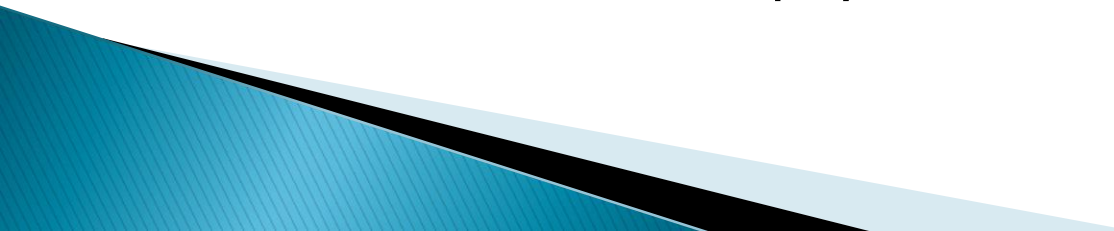


Unemployment, its types, Recession, and Productivity

By
Saba Bukhari

Defining and Measuring Unemployment

- ▶ The most frequently discussed symptom of a recession is unemployment.
 - ▶ An *employed* person is any person of 16 years old or above:
 1. who works for pay, either for someone else or in his or her own business for 1 or more hours per week,
 2. who works without pay for 15 or more hours per week in a family enterprise, or
 3. who has a job but has been temporarily absent, with or without pay.
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Defining and Measuring Unemployment

- ▶ An *unemployed* person is a person 16 years old or above:
 1. is not working,
 2. is available for work, and
 3. has made specific efforts to find work during the previous 4 weeks.

Defining and Measuring Unemployment

$$\text{labor force} = \text{employed} + \text{unemployed}$$

$$\text{population} = \text{labor force} + \text{not in labor force}$$

$$\text{unemployment rate} = \frac{\text{unemployed}}{\text{employed} + \text{unemployed}}$$

$$\text{labor force participation rate} = \frac{\text{labor force}}{\text{population}}$$

Defining and Measuring Unemployment

- ▶ Computing the unemployment rate for the month of July 2003:
 - Labor force: 141.39 million
 - Employed: 133.47 million
 - Unemployed: 7.92 million

$$\text{unemployment rate}_{\text{July 2003}} = \frac{7.92}{133.47 + 7.92} = 5.6\%$$

Types of Unemployment

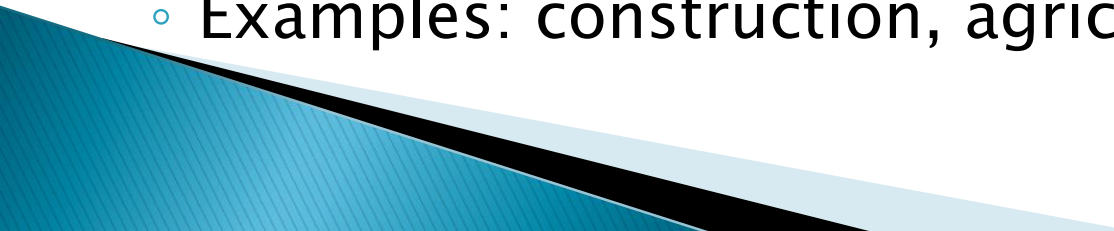
▶ Frictional unemployment

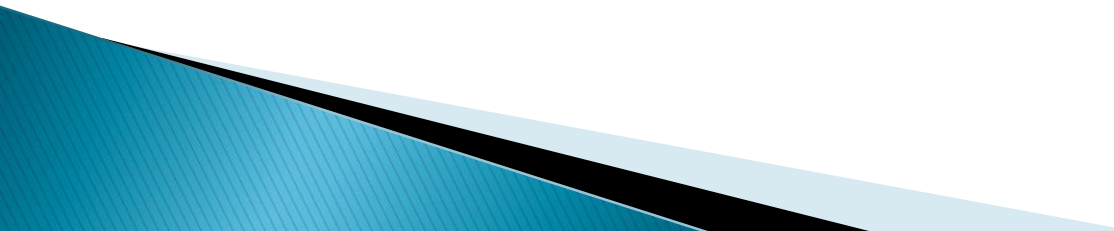
Frictional unemployment arises because of the time needed to match qualified job seekers with available job openings

- New college grads looking for jobs
- Parents returning to the work force
- Quit job to look for a better one

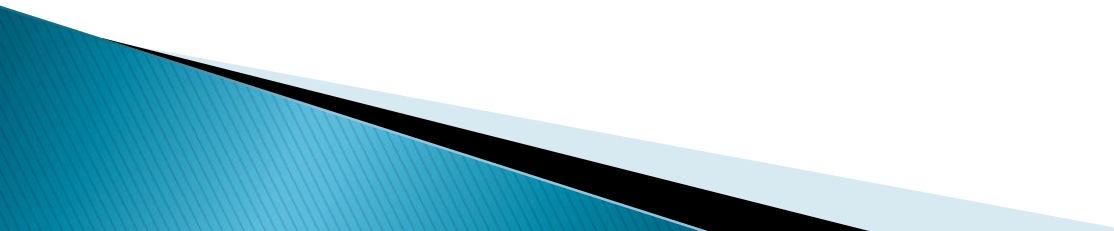
- ▶ **Structural unemployment** is the portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
 - Technology (machines) displaces workers
 - International Trade (workers lose jobs due to trade)

 - ▶ **Cyclical unemployment** is the increase in unemployment that occurs during recessions and depressions.

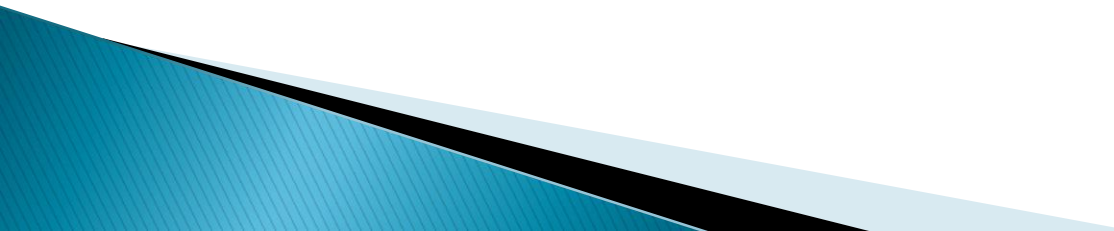
 - ▶ **Seasonal unemployment** is caused by seasonal shifts in labor supply and demand
 - Examples: construction, agriculture, Life Guards
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- ▶ ***Inflation*** is an increase in the overall price level.
 - ▶ ***Deflation*** is a decrease in the overall price level.
 - A **recession** is roughly a period in which real GDP declines for at least two consecutive quarters. It is marked by falling output and rising unemployment
 - A **depression** is a prolonged and deep recession..
 - In recession unemployment increases
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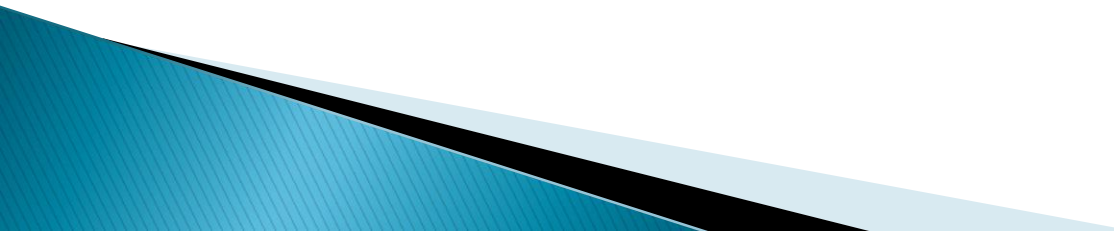
The Benefits of Recessions

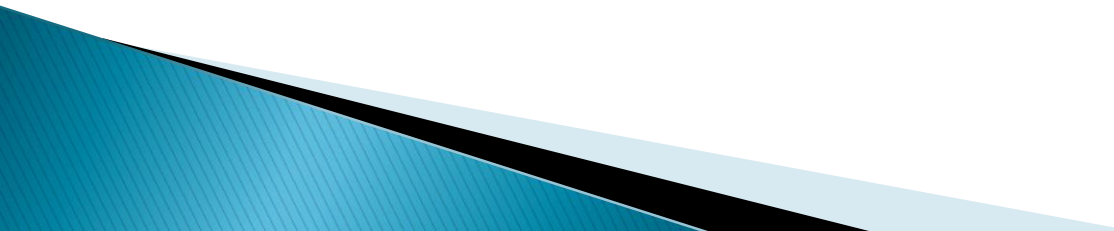
- ▶ Recessions may help to reduce inflation.
 - ▶ Some argue that recessions may increase efficiency by driving the least efficient firms out of business and by forcing surviving firms to trim waste and manage their resources better.
 - ▶ Also, a recession leads to a decrease in the demand for imports, which improves a nation's balance of payments.
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Okun's Law

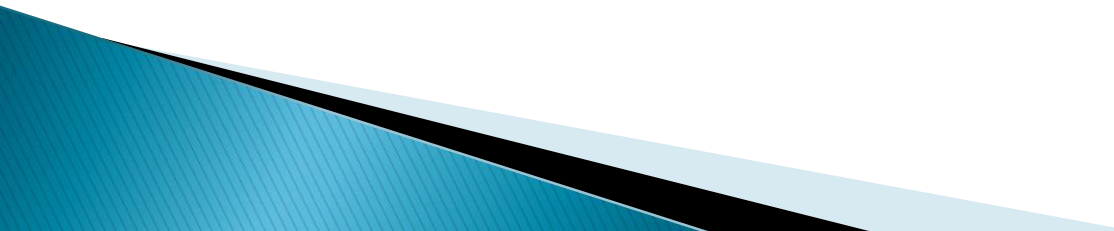
- ▶ Defined by economist **Arthur Okun** in 1962.
 - ▶ Describes the inverse relationship between **unemployment** and **GDP growth**.
 - ▶ For every 1% increase in unemployment, a country's GDP falls by approximately **2%–3%** from its potential.
 - ▶ It suggests that when the unemployment rate decreases, a nation's GDP grows at a faster rate, and vice versa.
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Inflation

- ▶ ***Inflation*** is an increase in the overall price level.
 - ▶ ***Deflation*** is a decrease in the overall price level.
 - ▶ ***Sustained inflation*** is an increase in the overall price level that continues over a significant period.
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- ▶ Inflation is a sustained increase in the average level of prices
 - ▶ **Hyperinflation** is a very high rate of inflation
 - Brazil experienced inflation over 1000% during some recent years
 - Germany between WW1 and WW2
 - ▶ **Disinflation** is a reduction in the positive inflation rate
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The Benefits of Recessions

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Inflation

Inflation is a continuous increase in average prices over time. A one-time increase of average prices is not inflation.

The formula to calculate an inflation rate is

$$\text{Inflation rate (\%)} = \frac{(\text{Current year price index} - \text{Previous year price index})}{\text{Previous year price index}} \times 100$$

How do we Measure Inflation?

- i. Consumer Price Index
- ii. Producer Price Index
- iii. GDP Deflator

Recessions, Depressions, and Unemployment

- The *business cycle* describes the periodic ups and downs in the economy, or deviations of output and employment away from the long-run trend.
- A *recession* is roughly a period in which real GDP declines for at least two consecutive quarters. It is marked by falling output and rising unemployment
- A *depression* is a prolonged and deep recession..
- In recession unemployment increases

Inflation: What Causes It?

► Types of Inflation

1. Demand–Pull Inflation

- a. Total spending in excess of production capacity
- b. Often described: “too many dollars chasing too few goods”
- c. Demand curve shifting to the right

Inflation

- ▶ Types of Inflation (continued)
 - 2. **Cost-Push Inflation (Supply-Side Inflation)**
 - ❑ Cost-push Inflation summarized:
 - ❑ Prices rise due to rising production costs (factors of production) called “supply shocks” (oil, wages, other materials)
 - ❑ Supply curve “shifts to the left”