(Un)employment: Basic definitions

Principles of Macroeconomics // Fall 2024

Prof. Santetti

marcio.santetti@emerson.edu

Readings

Recommended readings

Required readings:

- *Macroeconomics in Context*, 4th ed.
  - → Chapter 7, section 1.
- 🔗 How the government measures unemployment (BLS)

Recommended listening:

- 🔗 Planet Money Podcast: Car Parts, Celery & The Labor Market (NPR)

Words of the day

- CPS;

- Labor force;

- Unemployment rate.

Measuring unemployment

Measuring unemployment

As of August 2024, the U.S. **civilian unemployment rate** is of 4.2%.

- How do you *interpret* this statistic?

Measuring unemployment

Adding to the previous question, what about…

- Relating these *4.2%* with **GDP**?

- Relating these *4.2%* with those **employed**?

- And why should one **care** about these *4.2%* at all?

Measuring unemployment

HOW

Q: How is unemployment *measured*?

A: **Current Population Survey** (CPS), every month since 1940.

- 60,000 *eligible* households;

- 1/4 of households *changed* every month;

- Household leaves the sample after *4* consecutive months, coming back after *8* months;

- *Specific* set of questions.

Measuring unemployment

WHO

Q: What is the *scope* of the CPS?

A: The *civilian non-institutional population*.

- Persons *16* years or older who do not live in **institutions**.

Q: Who is considered *unemployed*?

A: Those who were *not employed* during the reference week, but were available to work, and had made specific *efforts* to find employment sometime in the *four-week period* ending with the reference week.

Measuring unemployment

WHO

Q: Who is considered *employed*?

A: Those who did any work *for pay or profit* during the week before they are surveyed or who worked for **15** hours or more in a family business.

Employed and **unemployed** individuals make up the *labor force*.

Measuring unemployment

Q: So *where* does the official *unemployment statistic* come from?

A: The *civilian unemployment rate* is obtained by:

$$\text{Unemployment rate} = \frac{\text{Unemployed}}{\text{Labor force}} \times 100$$

Thus we **formally** define the *unemployment rate* as the *percentage of the labor force made up of people who do not have paid jobs but are immediately available and actively looking for paid jobs.*

Measuring unemployment

Q: Who is considered *not in the labor force*?

A: Those who do not meet the **criteria** to be considered *neither* employed nor unemployed.
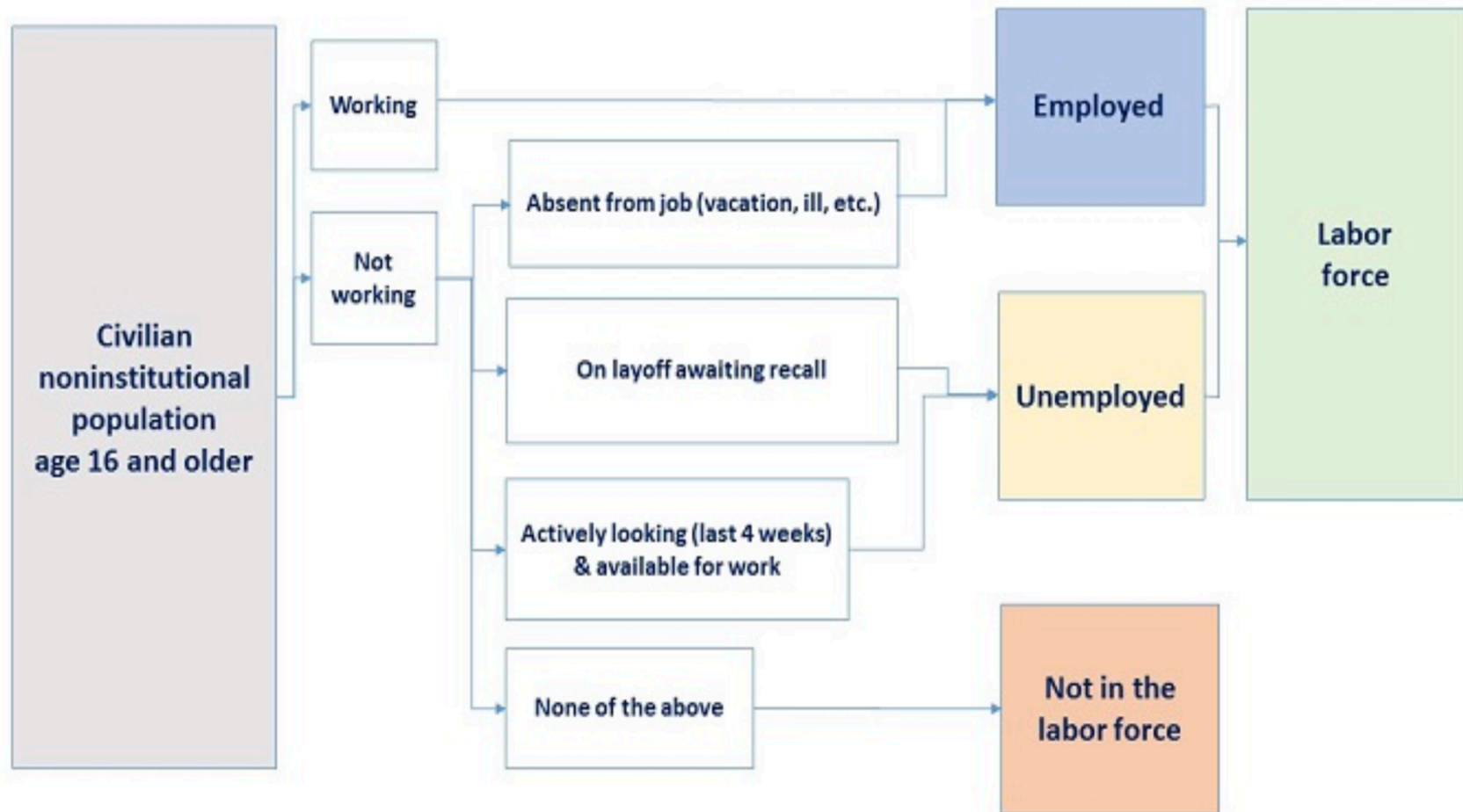
- Examples?

Measuring unemployment

Q: What about *overlaps*?

A: A *system of priorities* is used to determine one's status:

- Labor force activities take *precedence* over non-labor force activities;
- Working or having a job takes *precedence* over looking for work.

A summary

Source: U.S. Bureau of Labor Statistics.

The recent numbers

🔗 Labor Force Statistics from the Current Population Survey (BLS)

Measuring unemployment

Lastly, one should not **ignore** those who might want a job but have *given up* looking for them.

- Thus, official unemployment statistics may **underestimate** people's *desires* for a paid job.

In order to account for these individuals, the CPS includes questions to categorize **marginally attached workers**.

> *Marginally attached workers* are individuals who want employment and have looked for work in the past 12 months but not in the past 4 weeks.

Within this latter category, there might be so-called **discouraged workers**:

- Individuals who want employment but have *given up* looking because they believe that there are no jobs available for them.

Next time: Types of unemployment; wages