

# Introduction to Economics

## Unemployment and Inflation

Dr. Erinda Imeraj  
[eimeraj@epoka.edu.al](mailto:eimeraj@epoka.edu.al)

Epoka University

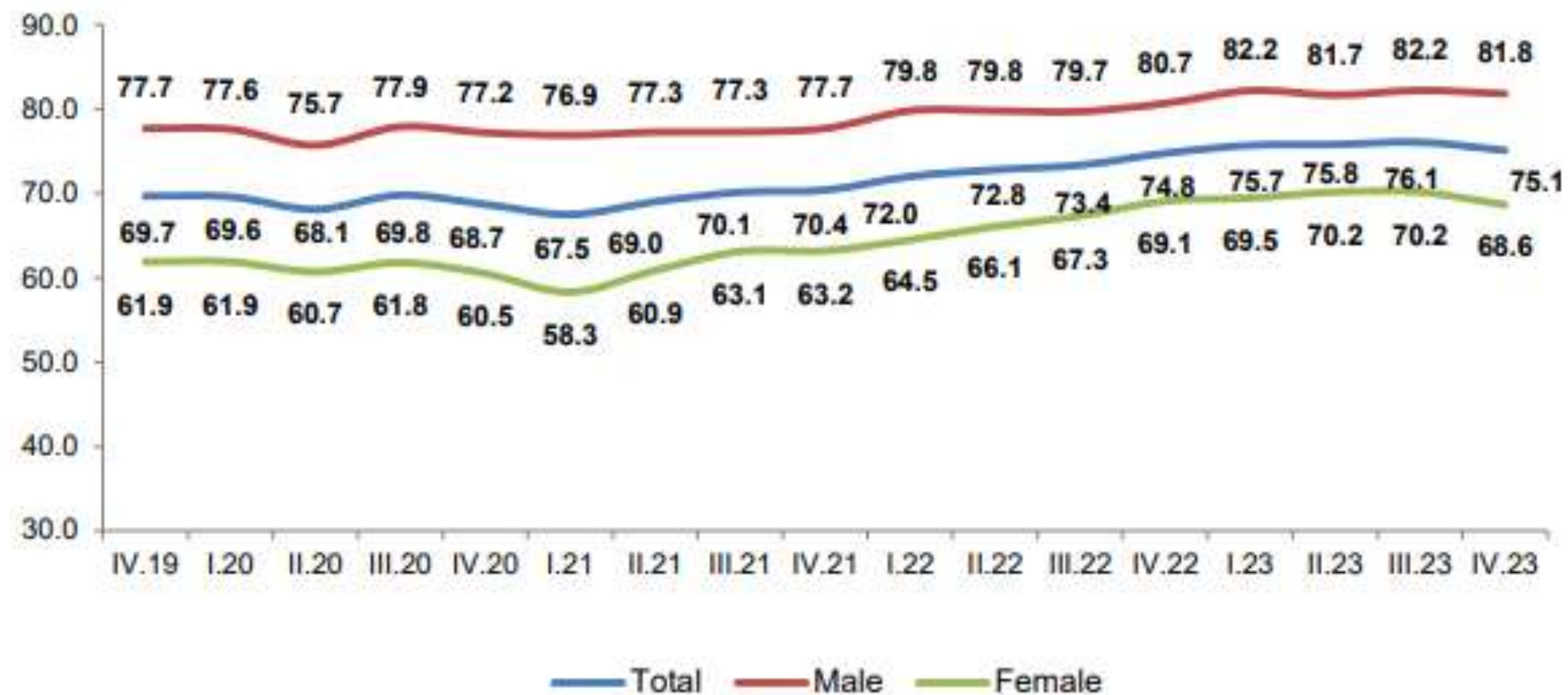


# UNEMPLOYMENT

- The presence of involuntary unemployment in a market economy raises important questions: How can millions of people be unemployed when there is so much useful work to be done? Is there some flaw in the market mechanism that forces so many who want to work to remain idle?

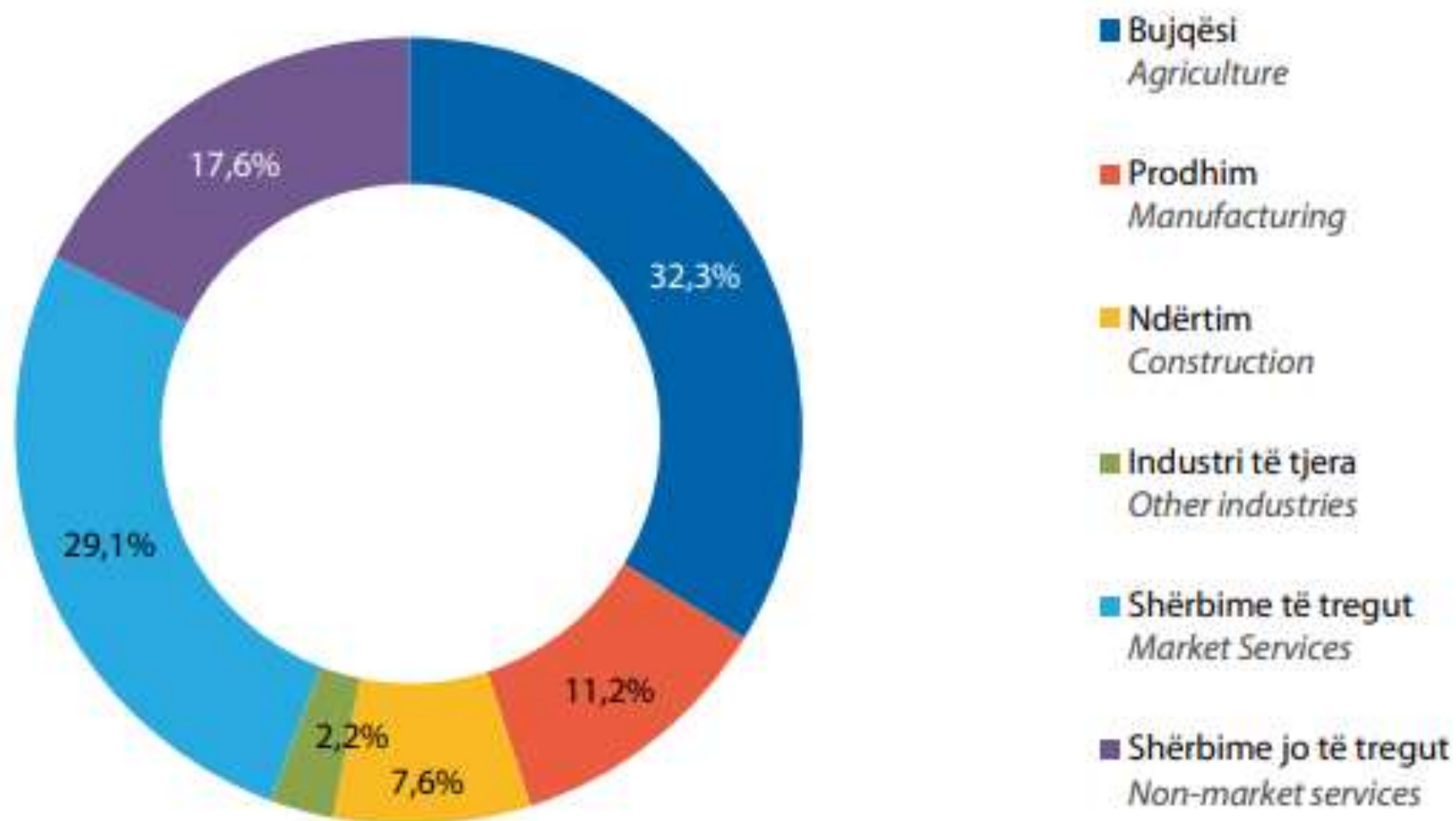
- **Employed.** These are people who perform any paid work, as well as those who have jobs but are absent from work because of illness, strikes, or vacations.  $ER = E / P * 100$
- **Unemployed.** Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work.  $UR = U / LF * 100$
- **Not in the labor force.** This includes the percent of the adult population that is keeping house, retired, too ill to work, or simply not looking for work.  $= P - LF$
- **Labor force.** This includes all those who are either employed or unemployed.  $LF = E + U$
- $LFPR = LF / P * 100$

Fig. 1 Labour Force Participation Rate, population aged 15 to 64, Q.4/19-Q.4/23



**FIG. 3 PUNËSIMI (15+) SIPAS AKTIVITETEVE EKONOMIKE, 2023**

*Employment (15+) by economic activities, 2023*



**FIG. 7 STRUKTURA E POPULLSISË 15-64 VJEÇ EKONOMIKISHT JO AKTIVE SIPAS GJINISË, 2023**

*Structure of the economically inactive population aged 15-64 years old by sex, 2023*

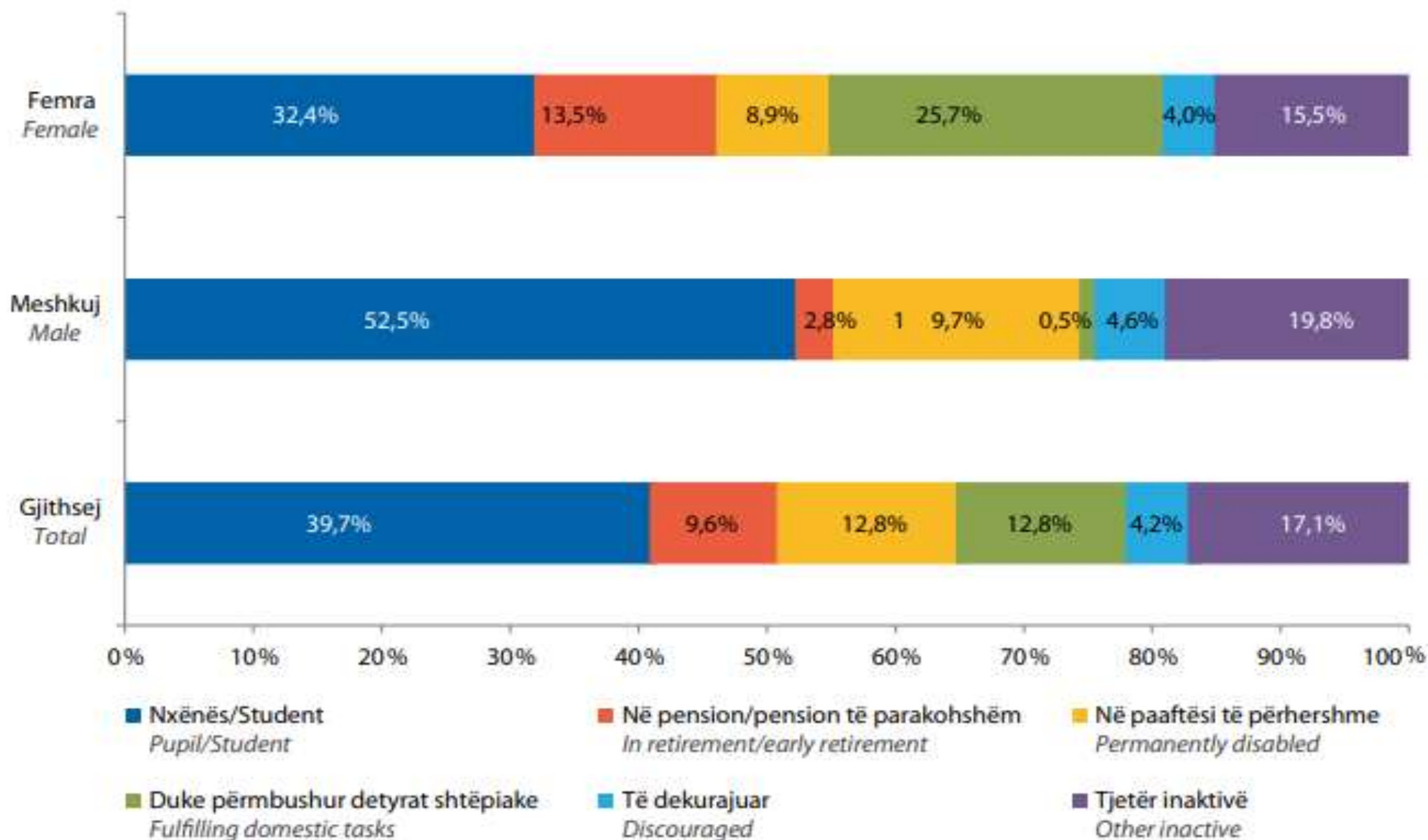
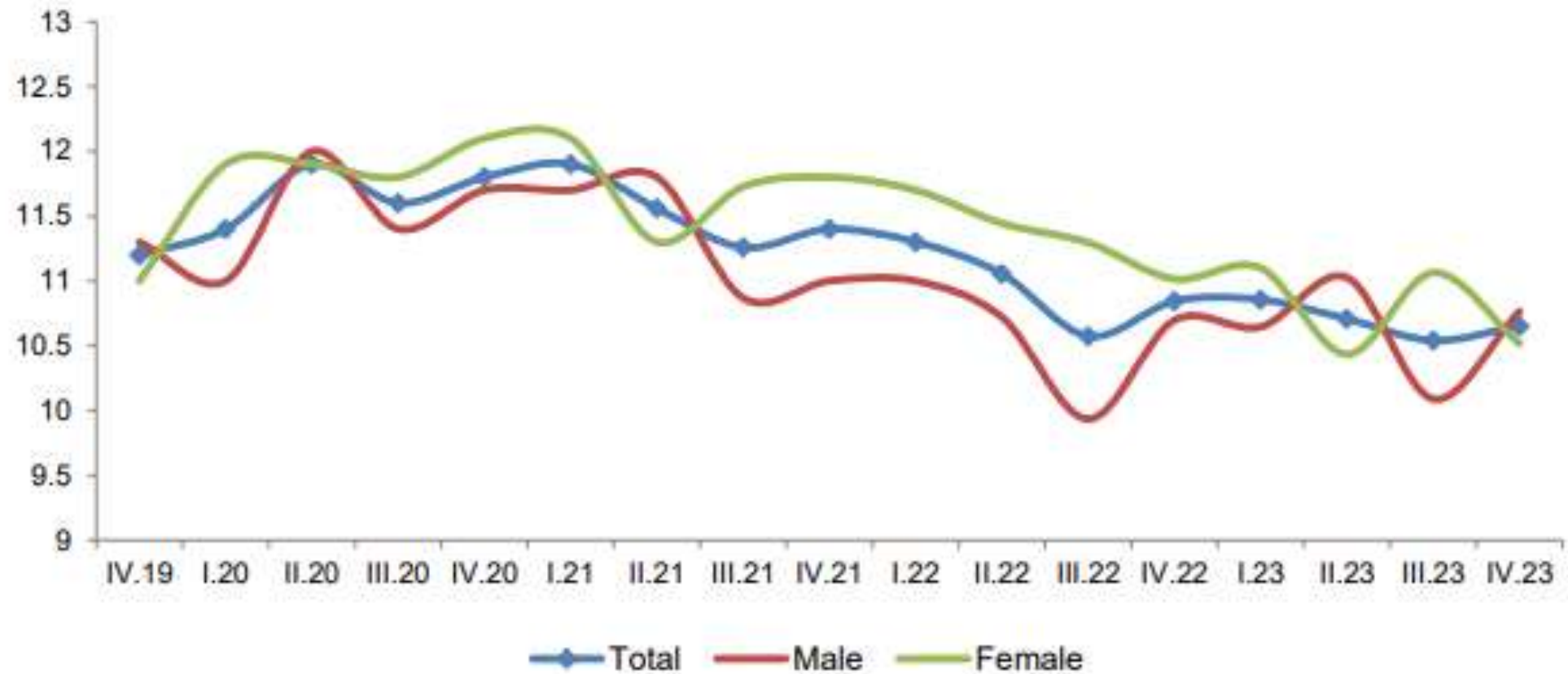


Fig. 4 Official Unemployment Rate, population aged 15 and over, Q.4/19-Q.4/23





## UNEMPLOYMENT RATE BY AGE AND SEX, 2023

15+ vjeç  
years old

Meshkuj  
Men

10,5 %

Femra  
Women

10,9 %

Mosha:

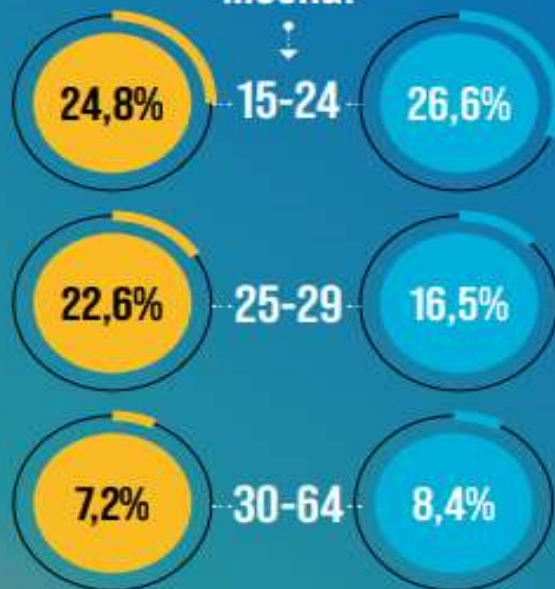
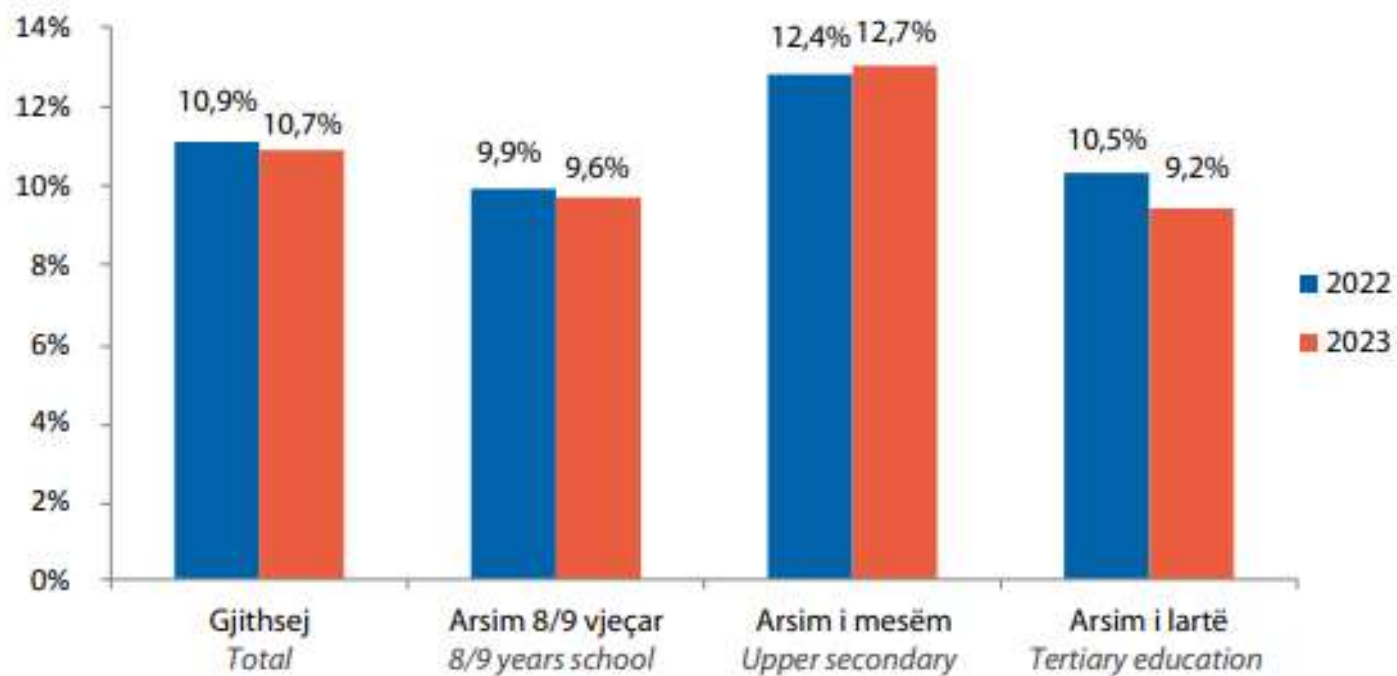


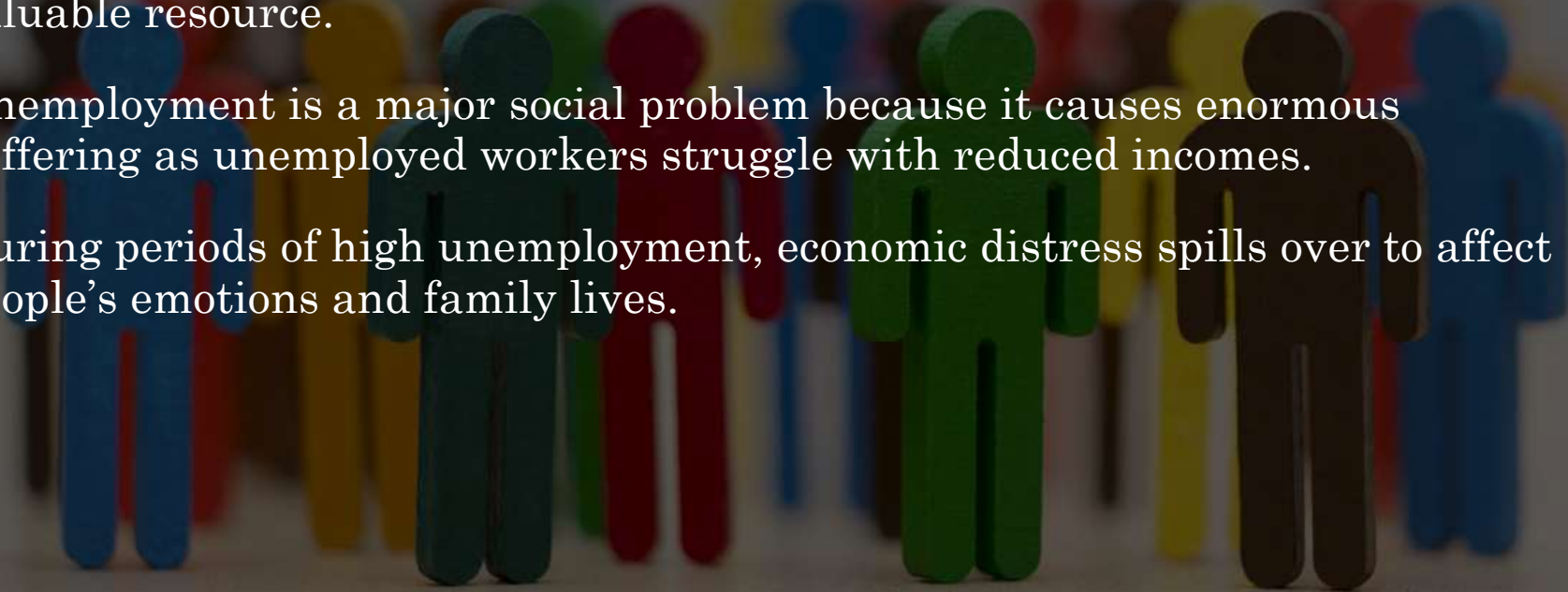
FIG.6 SHKALLA E PAPUNËSISË SIPAS NIVELIT ARSIMOR (POPULLSIA 15+), 2022-2023

Unemployment rate by educational level (population 15+), 2022-2023

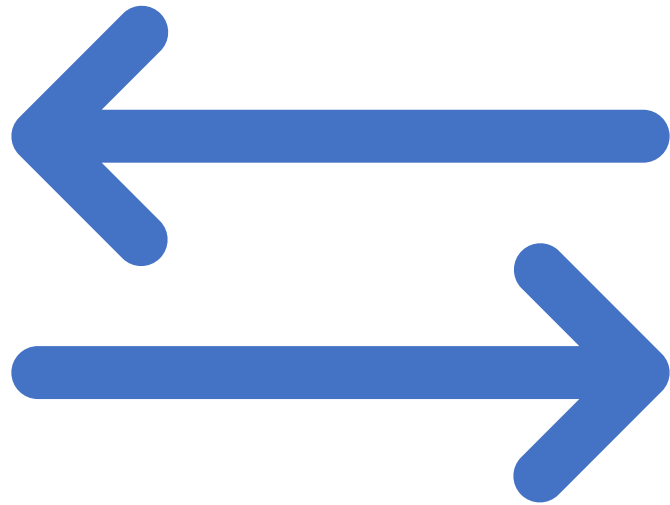




- High unemployment is both an economic and a social problem.
- Unemployment is an economic problem because it represents waste of a valuable resource.
- Unemployment is a major social problem because it causes enormous suffering as unemployed workers struggle with reduced incomes.
- During periods of high unemployment, economic distress spills over to affect people's emotions and family lives.



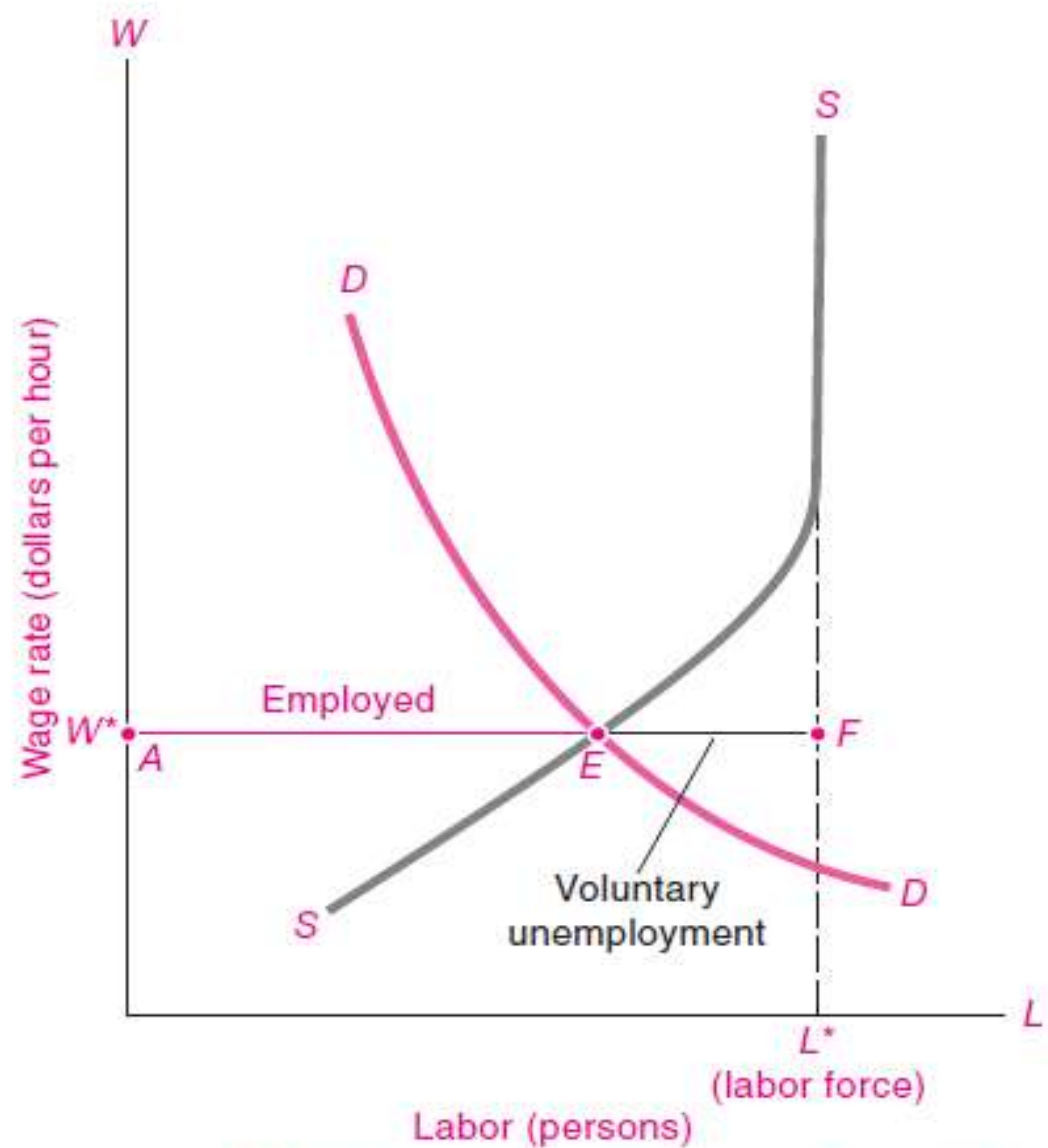
# OKUN'S LAW



- The unemployment rate usually moves inversely with output over the business cycle. This co-movement is known as Okun's Law.
- *Okun's Law states that for every 2 percent that GDP falls relative to potential GDP, the unemployment rate rises about 1 percentage point.*
- This means that if GDP begins at 100 percent of its potential and falls to 98 percent of potential, the unemployment rate rises by 1 percentage point, say, from 6 to 7 percent.

- **Equilibrium unemployment** arises when people become unemployed voluntarily as they move from job to job or into and out of the labor force. This is also sometimes called *frictional unemployment* because people cannot move instantaneously between jobs.
- **Disequilibrium Unemployment** occurs when the labor market or the macroeconomy is not functioning properly and some qualified people who are willing to work at the going wage cannot find jobs. Two examples of disequilibrium are structural and cyclical unemployment.
- *Structural unemployment* signifies a mismatch between the supply of and the demand for workers. Mismatches can occur because the demand for one kind of labor is rising while the demand for another kind is falling and markets do not quickly adjust.
- *Cyclical unemployment* exists when the overall demand for labor declines in business-cycle downturns.

(a) Equilibrium



(b) Disequilibrium

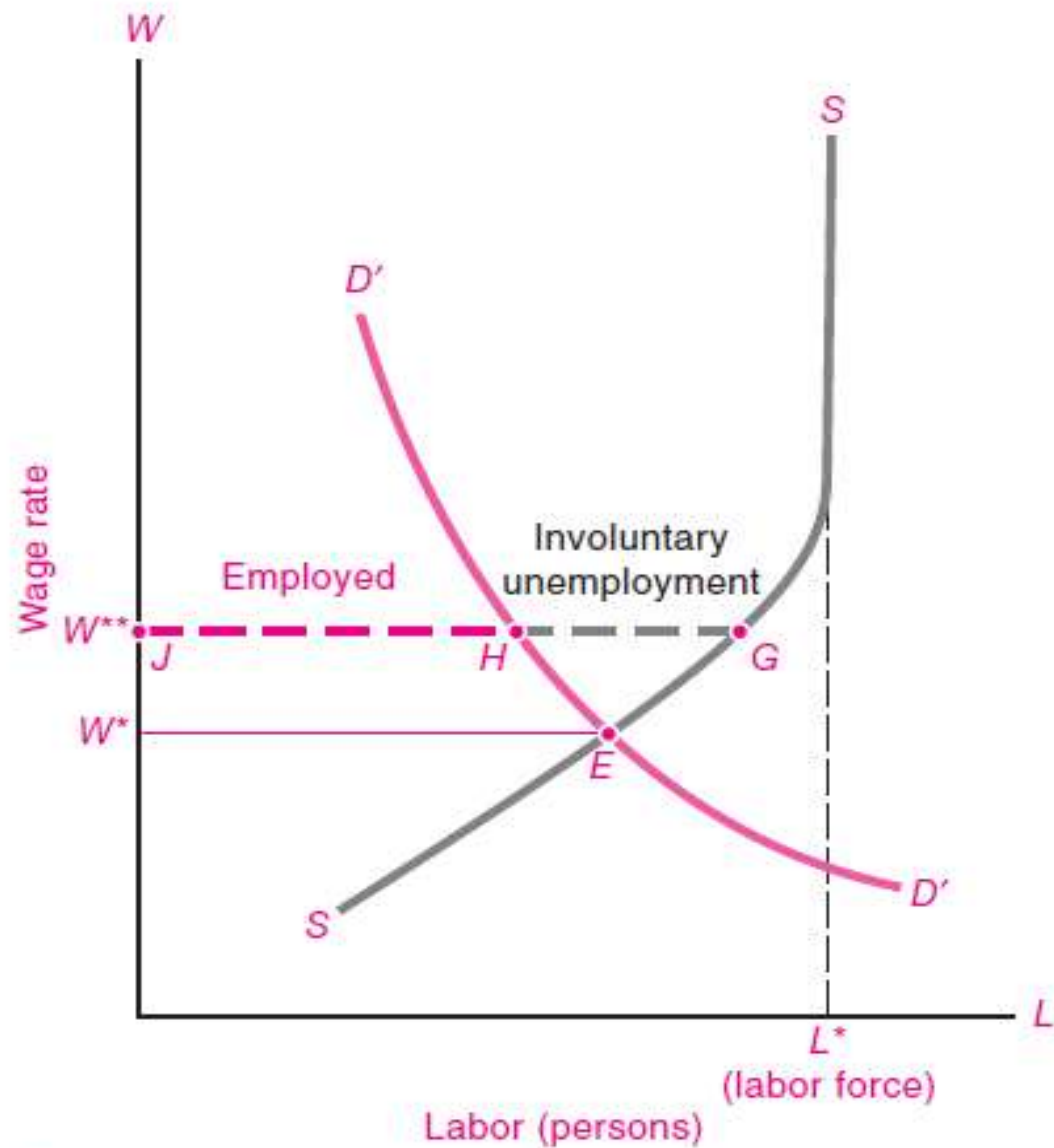
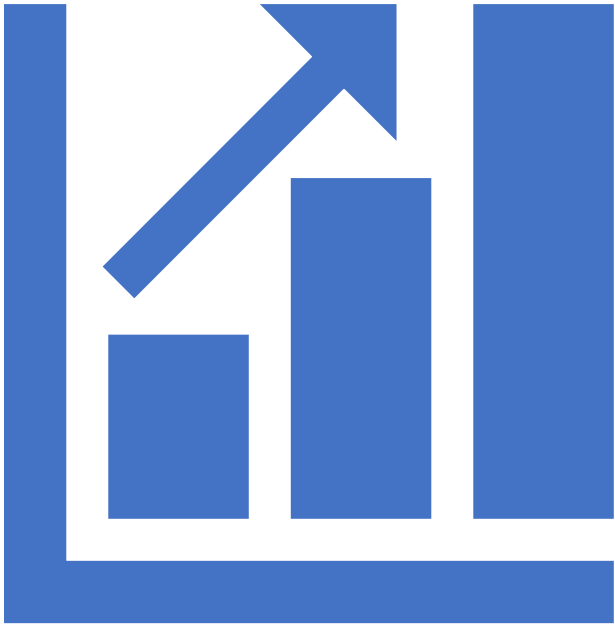


FIGURE 29-6. Equilibrium vs. Disequilibrium Unemployment

# Inflation



- Inflation occurs when the general level of prices is rising. Today, we calculate inflation by using price indexes—weighted averages of the prices of thousands of individual products.
- The consumer price index (CPI) measures the cost of a market basket of consumer goods and services relative to the cost of that bundle during a base year.
- The GDP deflator is the price of all the different components of GDP.



# *Three Strains of Inflation*

- ***Low Inflation.*** Low inflation is characterized by prices that rise slowly and predictably. We might define this as single-digit annual inflation rates.
- ***Galloping Inflation.*** Inflation in the double-digit or triple-digit range of 20, 100, or 200 percent per year is called **galloping inflation** or “very high inflation.” Galloping inflation is relatively common, particularly in countries suffering from weak governments, war, or revolution.
- ***Hyperinflation.*** While economies seem to survive under galloping inflation, a third and deadly strain takes hold when **hyperinflation** strikes. Nothing good can be said about an economy in which prices are rising a million or even a trillion percent per year.



## The German Hyperinflation



**FIGURE 30-4. Money and Hyperinflation in Germany, 1922–1924**

In the early 1920s, Germany could not raise enough taxes, so it used the monetary printing press to pay the government's bills. The stock of currency rose astronomically from January 1922 to December 1923, and prices spiraled upward as people frantically tried to spend their money before it lost all value.

# The Economic Impacts of Inflation

- A ***redistribution*** of income and wealth among different groups

The major redistributive impact of inflation comes through its effect on the real value of people's wealth. In general, unanticipated inflation redistributes wealth from creditors to debtors, helping borrowers and hurting lenders. An unanticipated deflation has the opposite effect.

- ***Distortions*** in the relative prices and outputs of different goods, or sometimes in output and employment for the economy.

Inflation impairs economic efficiency because it *distorts prices and price signals, distorts the use of money, taxes etc.*

- *Most economists agree that a predictable and gently rising price level provides the best climate for healthy economic growth.*
- *A careful analysis of the evidence suggests that low inflation has little impact on productivity or real output. By contrast, galloping inflation or hyperinflation can harm productivity and redistribute income and wealth in an arbitrary fashion.*
- *A gradual rise in prices will help avoid the deadly liquidity trap.*

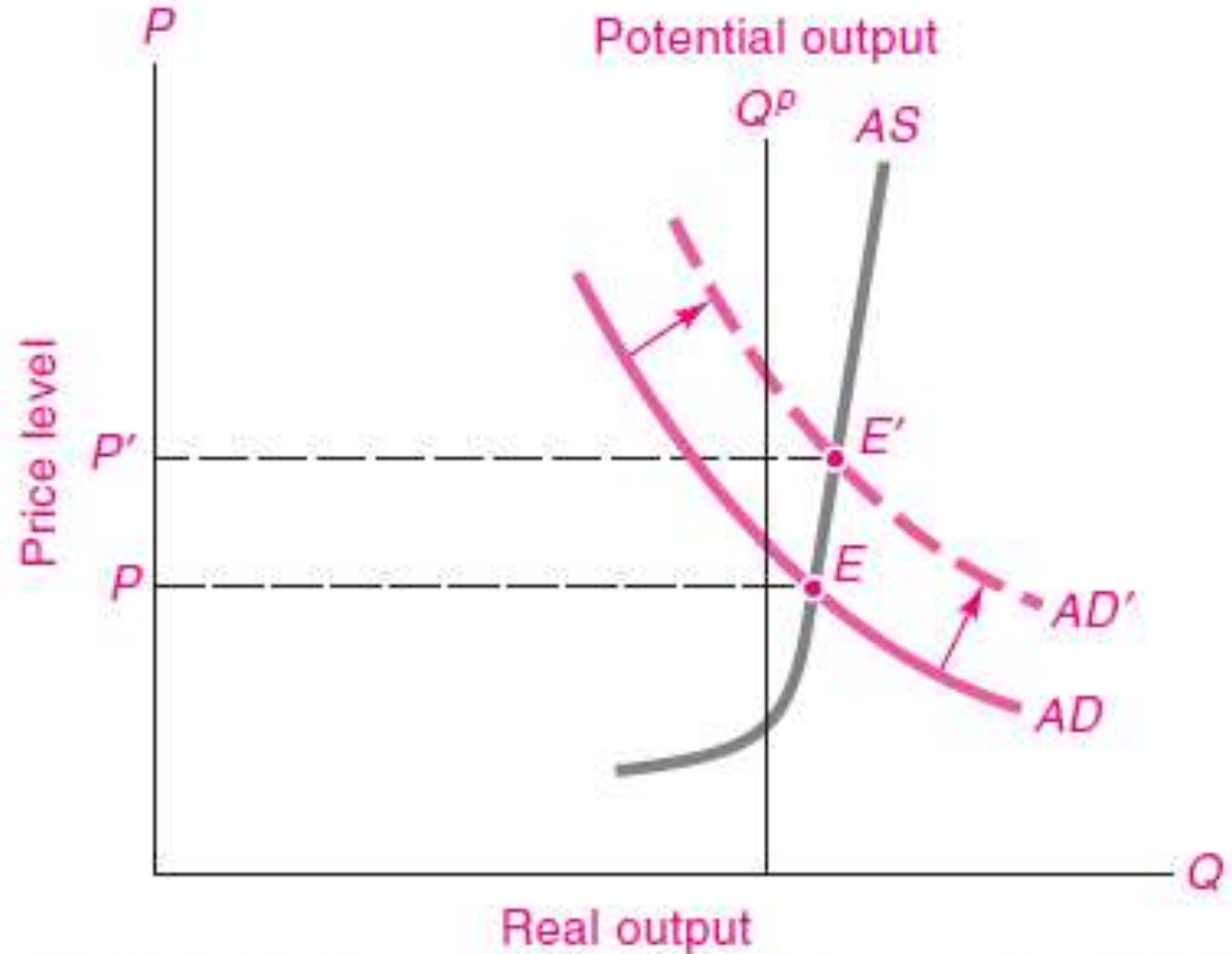


# Modern Inflation Theory

## *Expected Inflation*

- Inflation has a high degree of inertia in a modern economy. People form an **expected rate of inflation**, and that rate is built into labor contracts and other agreements. The expected rate of inflation tends to persist until a shock causes it to move up or down.

- *Demand-Pull Inflation*
- **Demand-pull inflation** occurs when aggregate demand rises more rapidly than the economy's productive potential, pulling prices up to equilibrate aggregate supply and demand.

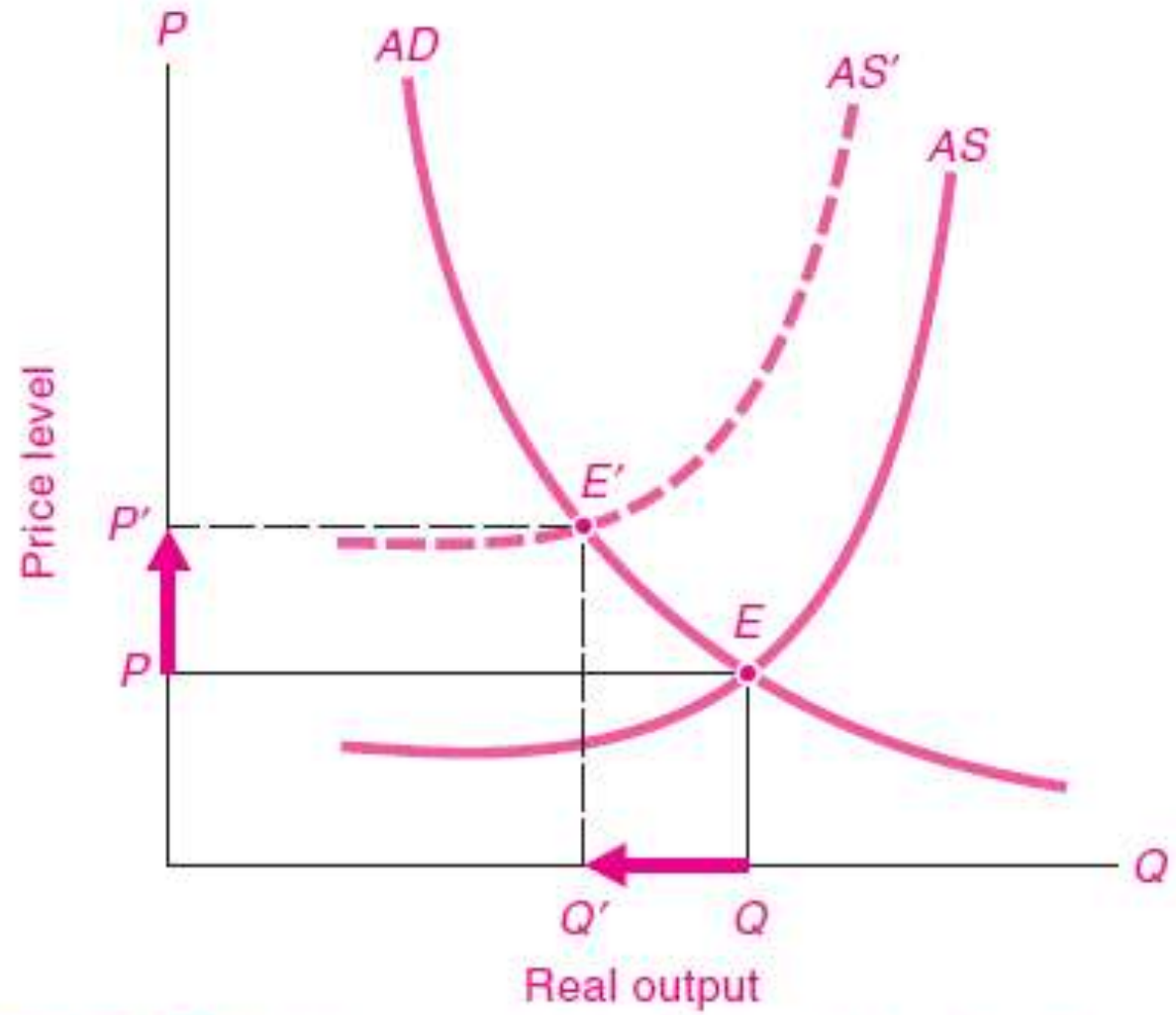


**FIGURE 30-5.** Demand-Pull Inflation Occurs When Too Much Spending Chases Too Few Goods



## *Cost-Push Inflation and “Stagflation”*

- Inflation sometimes increases because of increases in costs rather than because of increases in demand. (Cost-push inflation)
- Inflation resulting from rising costs during periods of high unemployment and slack resource utilization is called **supply-shock inflation**.
- It can lead to the policy dilemma of **stagflation** when output declines at the same time as inflation is rising.



**FIGURE 30-6.** Increases in Production Costs Can Cause Stagflation, with Falling Output and Rising Prices