

AN ASSIGNMENT ON UNEMPLOYMENT

ECO-205W

Submitted by:

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Submitted to:

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What is unemployment?

- Unemployment refers to a situation in which the workers who are capable of working and willing to work do not get employment. The unemployment rate is the percentage of people in the labor force who are unemployed. To count as unemployed, out-of-work employees must have these three qualities
 - 1) They aren't working, even part-time or temporarily.
 - 2) They are available to work.
 - 3) They actively looked for work in the past four weeks

Who Are the Unemployed ?

- The total population can be divided into two broad groups. One group consists of persons who are (1) under 16 years of age, (2) in the armed forces, or (3) institutionalized—that is, they are in a prison, mental institution, or home for the aged. The second group, which consists of all others in the total population, is called the civilian noninstitutional population.

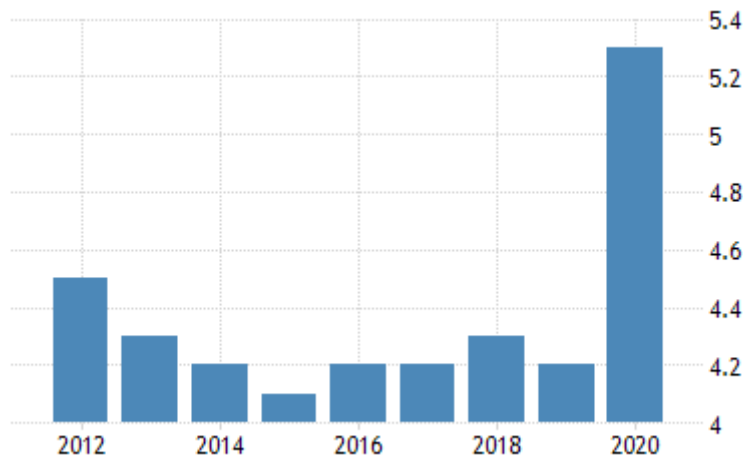
The civilian noninstitutional population, in turn, can be divided into two groups: persons not in the labor force and persons in the civilian labor force.

Persons not in the labor force are neither working nor looking for work. For example, people who are retired, who are engaged in own-home housework, or who choose not to work fall into this category. Persons in the civilian labor force fall into one of two categories: employed or unemployed

The Unemployment and Employment Rates and Labor Force Participation Rate:

- *The unemployment rate:* The unemployment rate is the percentage of the civilian labor force that is unemployed. It is equal to the number of unemployed persons divided by the civilian labor force.

$$\text{Unemployment rate}(U) = \frac{\text{Number of Unempolyed person}}{\text{civilianlabour force}} \times 100$$

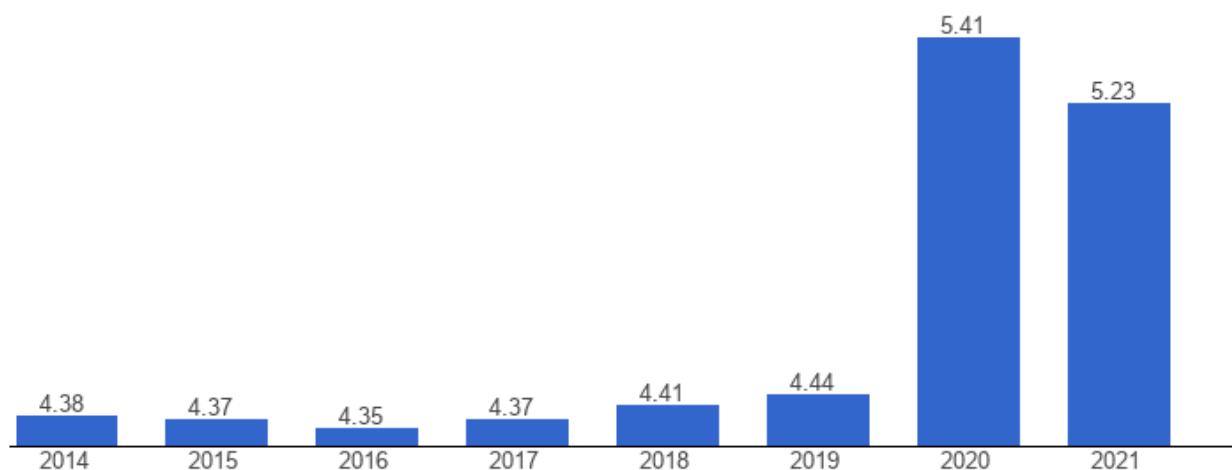


Employment Rate: The percentage of the civilian noninstitutional population that is employed. It is equal to the number of employed persons divided by the civilian noninstitutional population:

$$\text{Employment rate}(E) = \frac{\text{Number of empolyed person}}{\text{civilian noninstitutional population}} \times 100$$

- **The labor force participation rate (LFPR):** the labor force participation rate (LFPR) is the percentage of the civilian non-institutional population that is in the civilian labor force.

$$\text{Labor force participation rate}(LFPR) = \frac{\text{civilian labour force}}{\text{civilian noninstitutional population}} \times 100$$



What are the reasons for unemployment?

Reasons for Unemployment :

Usually, we think of an unemployed person as someone who has been fired or laid off from his or her job. Certainly, some unemployed persons fit in this description, but not all of them do. According to the BLS, an unemployed person may fall into one of four categories,

1. *Job leaver*: This is a person employed in the civilian labor force who quits his or her job. For example, if Jim quit his job with company X and is looking for a better job, then he is a job leaver.
2. *Job loser*: This is a person who was employed in the civilian labor force and was either fired or laid off. Most unemployed persons fall into this category.
3. *Reentrant*: This is a person who was previously employed, hasn't worked for some time and is currently re-entering the labor force.
4. *New entrant*: This is a person who has never held a full-time job for two weeks or longer and is now in the civilian labor force looking for a job.

What are the effects of Unemployment?

Effect of Unemployment:

1) *Personal cost of unemployment:*

- I. Loss of earnings to the unemployed: Unemployment is one of the biggest causes of poverty in the UK. Prolonged periods of unemployment can push households into debt and increase rates of relative poverty.
- II. Potential homelessness: Loss of income can leave people without sufficient income to meet housing costs. Rises in unemployment often exacerbate the rates of homelessness.
- III. Harms future prospects: Those who are unemployed will find it more difficult to get work in the future

2) *Government cost of unemployment:*

Increased government borrowing. Higher unemployment will cause a fall in tax revenue because there are fewer people paying income tax and also spending less (hence lower VAT). Also, the government will have to spend more on unemployment and related benefits. The government doesn't just pay unemployment benefit, but a family who has unemployment will be more likely to receive housing benefit and income support. One study shows that the cost to the Exchequer for one person being unemployed is £6,243 a year in benefits and lost tax revenue

Types of Unemployment:

(1) Frictional unemployment:

Frictional unemployment refers to those workers who are in between jobs. An example is a worker who recently quit or was fired and is looking for a job in an economy that is not experiencing a recession. It is not an unhealthy thing because it is usually caused by workers trying to find a job that is most suitable to their skills.

(2) Structural Unemployment:

Structural unemployment exists when shifts occur in the economy that creates a mismatch between the skills workers have and the skills needed by employers. An example of this is an industry's replacement of machinery workers with robots. Workers now need to learn how to manage the robots that replaced them. Those that don't learn need retraining for other jobs or face long-term structural unemployment.

A long recession often creates structural unemployment. If workers stay unemployed for too long, their skills have likely become outdated. Unless they are willing and able to take a lower-level, unskilled job, they may stay unemployed even when the economy recovers. If this happens, structural unemployment leads to a higher rate of natural unemployment.

(3) Natural Unemployment:

Natural unemployment consists of two of the three main types of unemployment: frictional and structural. It explains why there will always be some level of unemployment, even in a healthy economy. People will always be changing jobs, and sometimes they leave a job before finding a new one. There will always be some people with skills that are no longer needed.

The lowest level of unemployment was 2.5%, right after the Korean War. 7 Employers had a challenging time finding workers. It occurred because the economy was in a bubble that soon burst and led to a recession. A healthy economy will have a natural unemployment rate of 4.5%-5%.

(4) Cyclical Unemployment:

Cyclical unemployment is caused by the contraction phase of the business cycle. That's when the demand for goods and services falls dramatically. It forces businesses to lay off large numbers of workers to cut costs.

Cyclical unemployment creates more unemployment. The laid-off workers have less money to buy the goods and services they need. That further lowers demand.

In the form of expansive monetary policy and fiscal policy, government intervention is required to stop the downward spiral. After the stock market crash of 1929, the government did not step in right away. This delay led to the Great Depression, which lasted 10 years and led to a 25% unemployment rate.

(5) Real Unemployment:

Real unemployment is not one of the types of unemployment, but it's an important term to understand. Many people argue that instead of the "official" unemployment rate, we should use an alternate rate. The Bureau of Labor Statistics calls it the "U-6" rate. Others call it the "real" unemployment rate because it uses a broader definition of unemployment. It includes these two categories:

- I. *Marginally attached workers:* They haven't looked for work in the past four weeks but have looked within the past year. Some of them become discouraged workers who have given up looking for work.
- II. *Part-time workers:* They would like a full-time job but can only find part-time employment.

(6) Classical Unemployment:

Classical unemployment is also known as "real wage unemployment" or "induced unemployment." It's when wages are so high that employers can't hire all the available workers. In other words, wages are higher than the laws of supply and demand would normally dictate.

It occurs in one of these three situations:

- I. Unions negotiate higher salaries and benefits.
- II. Long-term contracts set a wage that has become too high due to a recession.

The government sets a minimum wage that's too high.

(7) Institutional Unemployment:

Institutional unemployment results from long-term or permanent institutional factors and incentives in the economy. The following can all contribute to institutional unemployment:

- I. Government policies, such as high minimum wages_floors, generous social benefits programs, and restrictive occupational licensing laws.
- II. Labor market phenomena, such as efficiency wages_and discriminatory hiring.
- III. Labor market institutions, such as high rates of unionization.

Main causes of unemployment:

- Slow economic growth:
- Increase in population
- Agriculture is a seasonal occupation
- Joint family system
- Fall of cottage and small industries
- Caste system
- Low Rates of Saving and Investment
- Ineffective (or absent) Economic Planning
- Lack of essential skilling

How To reduce unemployment?

- Effective strategies and policies for reducing unemployment depend heavily on which type of unemployment we are targeting. Some solutions are-

I. Change in industrial technique:

Production techniques should suit the needs and means of the country. It is essential that labour-intensive technology should be encouraged in place of capital-intensive technology.

II. Policy regarding seasonal unemployment:

Seasonal unemployment is found in the agriculture sector and agro-based industries. To remove it:

- a) Agriculture should have multiple cropping.
- b) Plantations, horticulture, dairying, and animal husbandry should be encouraged.

c) Cottage industries should be encouraged.

III. *Change in the education system:*

The educational pattern should be completely changed. Students who have a liking for higher studies should be admitted to colleges and universities. Emphasis should be given to vocational education. Qualified engineers should start their own small units.

IV. *Expansion of Employment exchanges:*

More employment exchanges should be opened. Information regarding employment opportunities should be given to people.

V. *Full and more productive employment:*

The main objective of the country's employment policy should be to increase employment opportunities and the productivity of labour. Govt. should adopt a policy that provides employment to all people.

VI. *Increase in Production:*

To increase employment, it is essential to increase production in the agriculture and industrial sectors. Development of small and cottage industries should be encouraged.

VII. *More importance to employment programmes:*

In five year plans more importance should be given to employees. The programmes like irrigation, roads, flood control, power, agriculture, rural electrification can provide better employment to people.

VIII. *Population control:*

The growth of the population should be checked in order to solve the unemployment, problem. Family planning programmes should be implemented widely and effectively.