

28

Unemployment

PRINCIPLES OF

ECONOMICS

FOURTH EDITION

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Premium PowerPoint® Slides  
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 2008 update

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In this chapter, look for the answers to these questions:
 

- § How is unemployment measured?
- § What is the “natural rate of unemployment”?
- § Why are there always some people unemployed?
- § How is unemployment affected by unions and minimum wage laws?
- § What is the theory of efficiency wages, and how does it help explain unemployment?

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Labor Force Statistics

§ Produced by Bureau of Labor Statistics (BLS), in the U.S. Dept. of Labor
   
 § Based on regular survey of 60,000 households
   
 § Based on “adult population” (16 yrs or older)

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Labor Force Statistics

BLS divides population into 3 groups:

- **employed:**
- **unemployed:**
- **not in the labor force:** everyone else

The **labor force**

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Labor Force Statistics

**Unemployment rate** ("u-rate"):

**Labor force participation rate:**

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ACTIVE LEARNING 1:  
Calculate labor force statistics

Compute the labor force, u-rate, adult population, and labor force participation rate using this data:

Adult population of the U.S. by group, March 2007	
# of employed	146.3 million
# of unemployed	6.7 million
not in labor force	78.1 million

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ACTIVE LEARNING 1:  
Answers

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Labor Market Statistics for Different Groups

§ The BLS publishes these statistics for demographic groups within the population.

§ These data reveal widely different labor market experiences for different groups.

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Labor Market Statistics for Whites & Blacks,  
March 2007

Adults (20 yrs & older)		
	u-rate	LF part. rate
White, male	3.4%	76.6%
White, female	3.3	60.1
Black, male	9.0	71.0
Black, female	6.2	64.3

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**Labor Market Statistics for Whites & Blacks,**  
March 2007

<b>Teens (16-19 yrs)</b>		
	u-rate	LF part. rate
White	13.2	44.9
Black	25.0	30.5

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**Labor Market Statistics for Other Groups,**  
March 2007

<b>All ages</b>		
	u-rate	LF part. rate
Asian	3.0	66.4
Hispanic	5.1	68.9

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**Labor Market Statistics by Education Level,**  
March 2007

<b>Adults (25 yrs &amp; older)</b>		
	u-rate	LF part. rate
less than h.s.	7.0%	47.2%
h.s. diploma	4.1	62.9
some college or assoc degree	3.6	71.6
bachelor's degree or more	1.8	78.6

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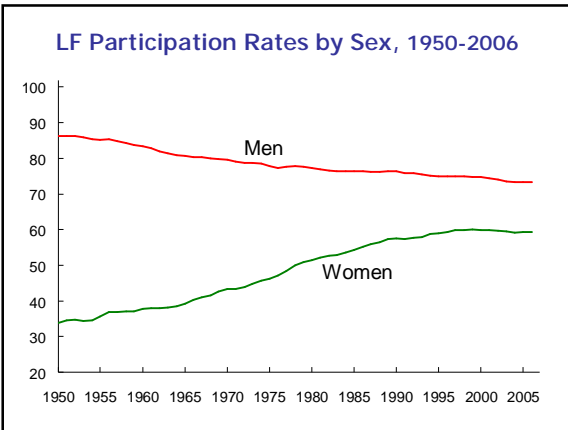
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**ACTIVE LEARNING 2:**  
**Exercise**

In each of the following, what happens to the u-rate? Does the u-rate give an accurate impression of what's happening in the labor market?

- A.** Sue lost her job, and begins looking for a new one.
- B.** Jon, a steelworker who has been out of work since his mill closed last year, becomes discouraged and gives up looking for work.
- C.** Sam, the sole earner in his family of 5, just lost his \$80,000 job as a research scientist. Immediately, he takes a part-time job at McDonald's until he can find another job in his field.

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**ACTIVE LEARNING 2:**  
**Answers**

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### What Does the U-Rate Really Measure?

§ The u-rate is not a perfect indicator of joblessness or the health of the labor market:

§ Despite these issues, the u-rate is still a very useful barometer of the labor market & economy.

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### The Duration of Unemployment

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- Typically 1/3 of the unemployed have been unemployed < 5 weeks, 2/3 have been unemployed < 14 weeks.
- Only 20% have been unemployed > 6 months.

§

- The small group of long-term unemployed persons has fairly little turnover, so it accounts for most of the unemployment observed over time.

§ Knowing these facts helps policymakers design better policies to help the unemployed.

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### Cyclical Unemployment vs. the Natural Rate

There's always some unemployment, though the u-rate fluctuates from year to year.

The **natural rate of unemployment**

**cyclical unemployment**

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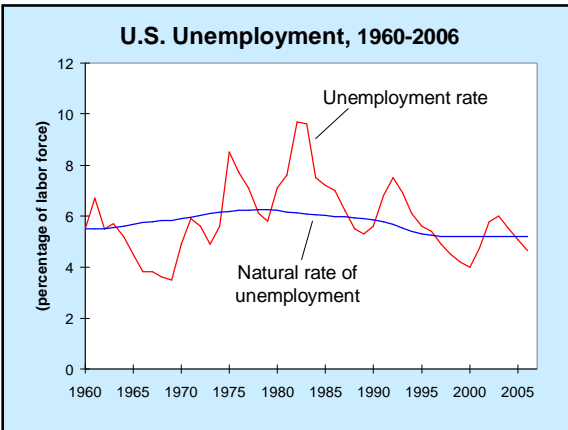
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### Explaining the Natural Rate: An Overview

Even when the economy is doing well, there is always some unemployment, including:

**frictional unemployment**

**structural unemployment**

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### Job Search

§ Workers have different tastes & skills, and jobs have different requirements.

§ **Job search**

§ **Sectoral shifts**

§ Such shifts displace some workers, who must search for new jobs appropriate for their skills & tastes.

§ The economy is always changing, so

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### Public Policy and Job Search

§ Govt employment agencies:

§ Public training programs:

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### Unemployment Insurance

§ **Unemployment insurance** (UI):

§ UI  
To see why, recall one of the  
Ten Principles of Economics:  
*People respond to incentives.*

UI benefits end when a worker takes a job,



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### Unemployment Insurance

Benefits of UI:

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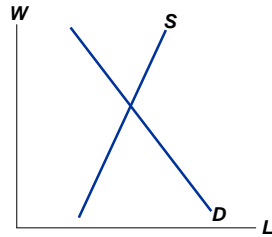
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## Explaining Structural Unemployment

Structural unemployment occurs when



There are three reasons for this...

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1.

§

§ But this group is a small part of the labor force,

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## 2. Unions

§ **Union:** a worker association that bargains with employers over wages, benefits, and working conditions

§

§ The typical union worker earns 20% higher wages and gets more benefits than a nonunion worker for the same type of work.

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## 2. Unions

§ When unions raise the wage above eq'm, quantity of labor demanded falls and unemployment results.

§ "Insiders"

§ "Outsiders"

§ Some outsiders go to non-unionized labor markets, which

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## 2. Unions

Are unions good or bad? Economists disagree.

§ Critics:  
Unions are cartels. They raise wages above eq'm, which causes unemployment and/or depresses wages in non-union labor markets.

§ Advocates:

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## 3. Efficiency Wages

§ The theory of **efficiency wages**:

§ Different versions of efficiency wage theory suggest different reasons why firms pay high wages.

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### 3. Efficiency Wages

Four reasons why firms might pay efficiency wages:

1.

In less developed countries, poor nutrition is a common problem.

2. **Worker turnover**

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### 3. Efficiency Wages

Four reasons why firms might pay efficiency wages:

3. **Worker quality**

Offering higher wages

4. **Worker effort**

Workers can work hard or shirk. Shirkers are fired if caught. Is being fired a good deterrent?

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### ACTIVE LEARNING 3: Exercise

Which of the following would be most likely to reduce frictional unemployment?

- A. The govt eliminates the minimum wage.
- B. The govt increases unemployment insurance benefits.
- C. A new law bans labor unions.
- D. More workers post their resumes at Monster.com, and more employers use Monster.com to find suitable workers to hire.
- E. Sectoral shifts become more frequent.

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### Explaining the Natural Rate of Unemployment: A Summary

The natural rate of unemployment consists of

§ *frictional unemployment*

§ *structural unemployment*

In later chapters, we will learn about *cyclical unemployment*, the short-term fluctuations in unemployment associated with business cycles.

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