Unemployment and Its Natural Rate

Chapter 28

Categories of Unemployment

- The problem of unemployment is usually divided into two categories.
- The long-run problem and the short-run problem:
  - The natural rate of unemployment
  - The cyclical rate of unemployment

Describing Unemployment

Three Basic Questions:

1. How does government measure the economy’s rate of unemployment?
2. What problems arise in interpreting the unemployment data?
3. How long are the unemployed typically without work?
How is Unemployment Measured?

- Unemployment is measured by the Bureau of Labor Statistics (BLS).
  - It surveys 60,000 randomly selected households every month.
  - The survey is called the Current Population Survey.

- Based on the answers to the survey questions, the BLS places each adult into one of three categories:
  - Employed
  - Unemployed
  - Not in the labor force

- The BLS considers a person an adult if he or she is over 16 years old.
- A person is considered employed if he or she has spent most of the previous week working at a paid job.
- A person is unemployed if he or she is on temporary layoff, is looking for a job, or is waiting for the start date of a new job.
- A person who fits neither of these categories, such as a full-time student, homemaker, or retiree, is not in the labor force.
- The BLS defines the labor force as the sum of the employed and the unemployed.
The Breakdown of the Population in 1998

- Adult population (205.2 million)
  - Employed (131.5 million)
  - Unemployed (6.2 million)
  - Not in labor force (67.5 million)
  - Labor force (137.7 million)

How is Unemployment Measured?

The unemployment rate is calculated as the percentage of the labor force that is unemployed.

\[
\text{Unemployment rate} = \frac{\text{Number unemployed}}{\text{Labor force}} \times 100
\]

How is Unemployment Measured?

The labor-force participation rate is the percentage of the adult population that is in the labor force.

\[
\text{Labor-force participation rate} = \frac{\text{Labor force}}{\text{Adult population}} \times 100
\]
Labor-Force Experiences of Various Demographic Groups (1998)

<table>
<thead>
<tr>
<th>Demographic Group</th>
<th>Unemployment Rate</th>
<th>Labor-Force Participation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adults (20+)</td>
<td></td>
<td></td>
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<tr>
<td>White, male</td>
<td>3.2</td>
<td>77.2</td>
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<tr>
<td>White, female</td>
<td>3.4</td>
<td>59.7</td>
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<tr>
<td>Black, male</td>
<td>7.4</td>
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<tr>
<td>Black, female</td>
<td>7.9</td>
<td>64.8</td>
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<tr>
<td>Teenagers (16-19)</td>
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<tr>
<td>White, male</td>
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<td>56.6</td>
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<tr>
<td>White, female</td>
<td>10.9</td>
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<tr>
<td>Black, male</td>
<td>30.1</td>
<td>40.7</td>
</tr>
<tr>
<td>Black, female</td>
<td>25.3</td>
<td>42.5</td>
</tr>
</tbody>
</table>

Unemployment Rate Since 1960

Labor-force Participation Rates for Men and Women Since 1950
Does the Unemployment Rate Measure What We Want It To??

- It is difficult to distinguish between a person who is unemployed and a person who is not in the labor force.
- **Discouraged workers**
  - Other people may claim to be unemployed in order to receive financial assistance, even though they aren’t looking for work.

Why Are There Always Some People Unemployed?

- This question refers to the Natural Rate of Unemployment
  - Frictional Unemployment
  - Structural Unemployment

Three Possible Reasons for an Above-Equilibrium Wage Resulting in Structural Unemployment

- Minimum-wage laws
- Job Becoming Obsolete
- Unions
- Efficiency wages
Unemployment from a Wage Above the Equilibrium Level...

Unions and Collective Bargaining

- A union is a worker association that bargains with employers over wages and working conditions.
- In the 1940s and 1950s, when unions were at their peak, about a third of the U.S. labor force was unionized.
- A union is a type of cartel attempting to exert its market power.

Theory of Efficiency Wages

- A firm may prefer higher than equilibrium wages for the following reasons:
  - Worker Health:
  - Worker Turnover:
  - Worker Effort
  - Worker Quality