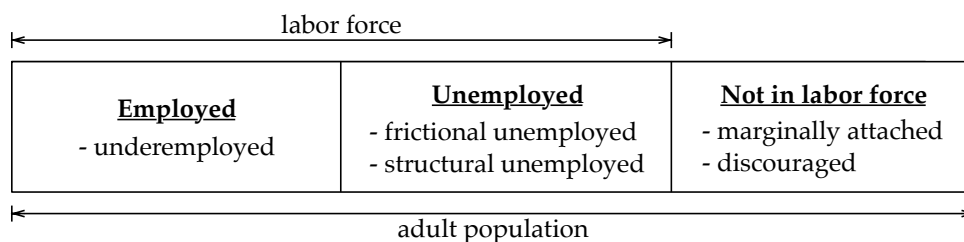


Discussion 5

1 Midterm Discussion

2 Unemployment

- **Employed:** total number of people currently employed, either full time or part time. e.g. paid employees, self-employed, and unpaid workers in a family business.
- **Unemployed:** total number of people who are actively looking for work during previous 4 weeks and aren't currently employed.
- **Not in the labor force:** everyone else in the adult population (age 16 and older).
- **Labor force = Number of Employed + Number of Unemployed** (total number of workers)



2.1 Labor Force Statistics

- Unemployment rate (% labor force that is unemployed): $\frac{\text{unemployment}}{\text{labor force}} \times 100$
- Labor force participation rate (% adult population that is in the labor force): $\frac{\text{labor force}}{\text{adult population}} \times 100$

2.2 Types of Workers

1. **Discouraged workers:** non-working people who are capable of work but have given up looking for work given after not being able to find a job after a period of search.
 - Not in the labor force (\notin unemployed).
2. **Marginally attached workers:** would like to be employed and have looked for a job in the recent past but are not currently looking for work. Discouraged workers are one type of marginally attached workers.
 - Not in the labor force (\notin unemployed).
3. **Underemployed workers:** those who work part time because they cannot find full-time work (current job does not reflect its skill set).
 - In the labor force (\in employed).

2.3 Types of Unemployment

1. **Frictional unemployment:** unemployment that occurs as workers search in the period between leaving one job and finding another.
 - occurs when workers spend time searching for the jobs that best suit their skills and tastes.
 - short-term for most workers.
2. **Structural unemployment:** is the unemployment rate that results when there are more people seeking jobs in a particular labor market than there are jobs available at the current wage rate.
 - occurs when there are fewer jobs than workers.
 - occurs when wage is kept above the equilibrium wage.
 - usually longer-term.

2.4 Unemployment Fluctuation

1. **Natural rate of unemployment:** unemployment rate that arises from frictional and structural unemployment.
 - **Natural rate of unemployment = Frictional unemployment + Structural unemployment**
 - The normal rate of unemployment around which the actual unemployment rate fluctuates.
2. **Cyclical unemployment:** deviation of the actual rate of unemployment from the natural rate.
 - **Actual unemployment = Natural rate of unemployment + Cyclical unemployment**
 - associated with business cycles.

3 Public Policy and Job Search

- Job search: the process of matching workers with appropriate jobs.
 - Workers have different tastes and skills, and jobs have different requirements.
- Sectoral shifts: the changes in the composition of demand across industries or regions of the country.
 - Such shifts displace some workers, who must search for new jobs appropriate for their skills and tastes.
 - The economy is always changing, so some frictional unemployment is inevitable.
- Public Policy:
 1. **Government employment agencies:** provide information about job vacancies to speed up the matching of workers with jobs.
 2. **Public training programs:** aim to equip workers displaced from declining industries with the skills needed in growing industries.

4 Graphical illustration

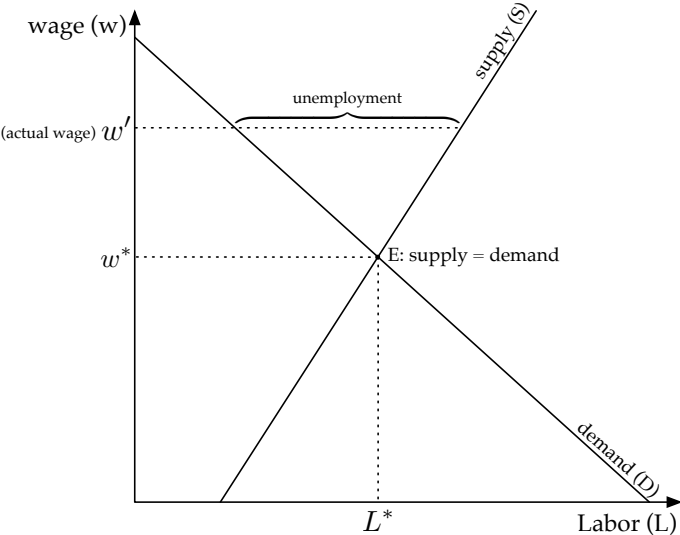


Figure 1: Structural unemployment