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What is Unemployment?

When people who want a job can't find one

Both a LR and SR component

Unemployment always means "at a certain wage rate"

LR Unemployment, the NATURAL RATE OF UNEMPLOYMENT

SR Unemployment, the CYCLICAL UNEMPLOYMENT RATE

How is it measured?

Three types of people between 16 and 70 years of age...

Employed – have a job

Unemployed – looking for a job

Not in the labor force – no job, and not looking for one

Labor Force – total number of employed and unemployed

Unemployment rate – the percent of labor force that is not working

Labor-force participation rate – percent of adults who are in the labor force

Natural Rate of Unemployment

A normal economy has some level of unemployment, say 5-6%

These are people who are switching jobs, just laid off, etc.

Economists typically call this the "Natural rate of unemployment"

Or NAIRU

Cyclical unemployment

This is fluctuations in the unemployment rate due to the business cycle

Typically, it can go far about 2% below, or 8% above, the natural rate

The labor force participation rate has increased in the U.S. until recently

But big sex differences

And also racial differences

In Thailand, a similar story, except no "recently"

How important is unemployment?

Most unemployment is short... (not important)

Most of the unemployed are long term unemployed... (important)

Frictional Unemployment vs. Structural Unemployment

Frictional Unemployment....

It takes a while for jobs and job seekers to find each other

Labor markets are not perfect markets

Job search is the process of matching workers to jobs

If people want more apples and less PCs,

Apple will need to hire, Microsoft will need to lay off

And the Microsoft people who are laid off

don't have identical skills to Apple jobs now available

Note, in a normal year, lots of people change jobs....

Govt. programs to alleviate frictional unemployment

Nice Idea, doesn't seem to work well in practice

Unemployment Insurance

It reduces the hardship of unemployment

But it also creates more of it....

(Moral Hazard)

Structural Unemployment

Minimum Wage Laws

Graph it out again....

Unions and collective Bargaining

Insider-Outsider models of the economy

Unions raise wages

Or minimize work, or create job security

Unions don't help the working man

They help the union members

Efficiency wages

Paying higher wages to get better work

Better worker health

Less turnover

Better worker quality

More work effort

"No shirking condition for workers"

The welfare state....