

Unemployment

- Governments rightly strive to achieve high employment levels because apart from lower than maximum output levels, economies are also expected to suffer from complicated social problems which are found to be highly correlated with countries' high unemployment levels.
- Classical economists argue that countries will experience some level

of unemployment even during their labor market equilibrium periods.

MEGA LECTURE

Unemployment

- They classify this type of unemployment in two categories namely **Frictional Unemployment** and **Structural Unemployment**.

Non-Accelerating Inflation Rate of Unemployment

- Natural Rate of Unemployment or Non-Accelerating Inflation Rate of Unemployment (**NAIRU**) are the terms Classical economists interchangeably use to refer to unemployment that exists during economies' labor market equilibrium.

Frictional Unemployment

- Frictional Unemployment accounts for unemployed people who are searching for better jobs for they are not satisfied with their current employments.
- Frictional Unemployment also includes individuals who are temporarily unemployed. Some industries having seasonal demand result in creation of seasonal unemployment.

Structural Unemployment

- Over time economies experience structural changes which results in varying significance of different industries based upon their contribution towards economy's national output levels. When this happens, more jobs are created in booming industries and lower demand for shrinking industries' products result in lower demand for labor by such industries.

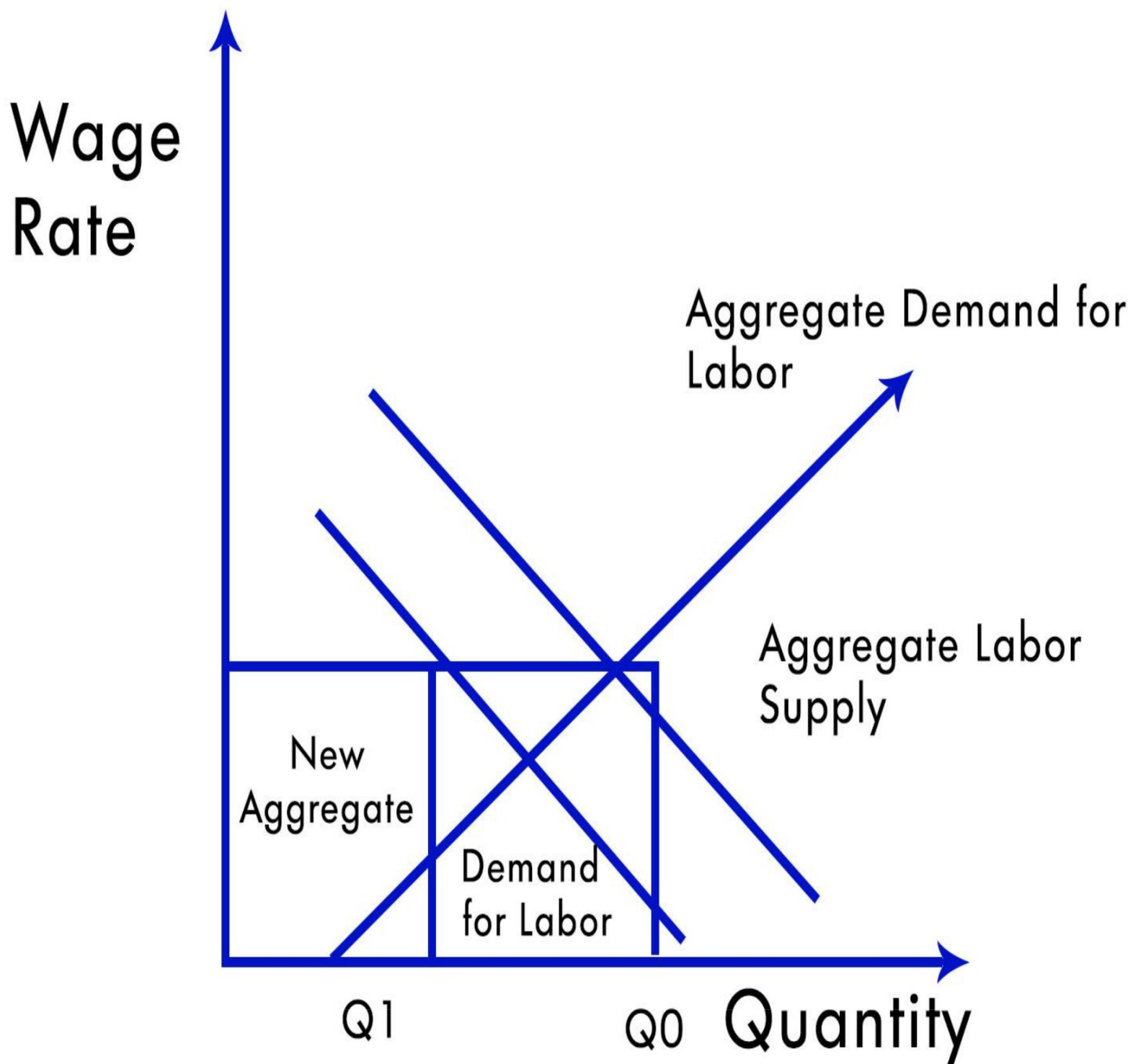
Structural Unemployment

- Such unemployment which is not evident through economies' labor market operations can at times result in long periods of unemployment. Appropriate supply-side policies are needed to readjust such unemployed individuals back in economy's labor force whose skills have perhaps now become obsolete due to technological advancements.
- Increased professional trainings, provision of formal education etc can be **some effective supply-side policies.**

Cyclical Unemployment

- As opposed to Classical economists' microeconomic reasons for explaining changes in economies' employments patterns, Keynesians view unemployment as more of macroeconomic concept and therefore argue that lack of aggregate demand for labor will significantly affect countries' employments levels. They call this as **Cyclical or Demand Deficient Unemployment**.
- Keynesians advocate for increased government spending **to boost aggregate demand** to tackle such types of unemployment.

Cyclical Unemployment



Cyclical Unemployment

- Lower economic activity levels will result in reduced aggregate demand for labor which will result in lower employment levels and hence unemployment levels will rise. **During recessions** such unemployment levels are high.
- If trade unions oppose fall in equilibrium wage rates then at previous wage rate the difference between labor supply and demand will be measure of economy's cyclical unemployment. Difference between Q_0 and Q_1 will estimate economy's cyclical unemployment.
- However it will be better if trade unions do not resist fall in wage rates which will result in **lower fall** in employment levels.

Measuring Unemployment

- **Labor Force Surveys** and **Claimant Count** are two methods for estimating unemployment in developed economies. Developing countries, where unemployment benefits are often missing, have to solely rely on Labor Force Surveys to estimate their unemployment levels.
- For Claimant Count, individuals receiving unemployment benefits from social security departments are considered to be unemployed.
- On the other hand country wide surveys are done to gauge economy's unemployment levels through Labor Force Surveys.

Measuring Unemployment

- Apart from being convenient, Claimant Count is also **cheaper way** of estimating economy's unemployment. On the other hand, Labor Force Surveys are not only expensive but due to sampling errors and data collection limitations/problems these surveys might not be very

- true depiction of economy's unemployment levels.
- However even with Claimant Count, some voluntarily unemployed individuals might be registered and hence this will distort unemployment statistics.

- Similarly some people who are actually unemployed but do not want to seek government financial assistance will not be included in these calculations.