Review

Identify the following:

1. What phase of the Business Cycle is the U.S. in?
2. What was the U.S. Real GDP Growth Rate last year?

12. Name 10 rides at Disneyland
Goal #2
Limit Unemployment

What is Unemployment?
The Unemployment rate
The percent of people in the labor force who want a job but are not working.

\[
\text{Unemployment rate} = \frac{\# \text{ unemployed}}{\# \text{ in labor force}} \times 100
\]

Who is in the Labor Force?
- 16 years old or older
- Able and willing to work
- Not institutionalized (jails, hospitals)
- Not in military, not in school full time, not retired

Why is a stay at home mom not unemployed?
2-5. Unemployment

What is Unemployment?

Unemployment rate = \frac{\# \text{ of unemployed}}{\text{labor force}} \times 100

Unemployment rate = \frac{14,265,000}{154,142,000} \times 100 = 9.3%

Three Types of Unemployment
3 Types of Unemployment

1. Frictional Unemployment
   - Seasonal Unemployment

2. Structural Unemployment
   - Technological Unemployment

3. Cyclical Unemployment

You're Fired!
This sucks!

You're Fired!
You're Fired!

HS or college grads looking for jobs.
Construction workers in Michigan.
Fired individuals are looking for better job.
VCR repairmen
Restaurant owners fire wait staff after months of poor sales due to recession.
Auto assemblers fired/robots take over
Professional Santa Clause Impersonators
Carriage makers
Steel workers laid off during recessions.
Two of the three types of unemployment are unavoidable:
- Frictional unemployment
- Structural unemployment
Together they make up the natural rate of unemployment (NRU).
We are at full employment if we have only the natural rate of unemployment.
- This is the normal amount of unemployment that we SHOULD have.
- The number of jobs seekers equals the number of jobs vacancies.

The Natural Rate of Unemployment

Full employment means NO Cyclical unemployment!
Economists generally agree that an unemployment rate of around 4 to 6 % is full employment.
4-6% Unemployment = NRU
Okun’s Law: When unemployment rises 1 percent above the natural rate, GDP falls by about 2 percent
Currently the U.S. is at _____ %
California is at _____ %
Reffonomics Website – Current Unemployment Figures
2-5. Unemployment

**United States Employment Statistics**

Jan 2009 - Dec 2013

Monthly change, seasonally adjusted
The Natural Rate of Unemployment

The natural rate in France and Germany is around 8–10%. Why?

- Some economists attribute the difference to more generous unemployment benefits in European countries.
  - In the U.S. unemployment benefits last for 6 months
  - Unemployment benefits in some European countries are indefinite
  - The generous benefits reduce incentives to search for a job

Criticisms of the Unemployment Rate

What is wrong with the unemployment rate?

It can misdiagnose the actual unemployment rate because of the following:

- Discouraged job seekers-
  - Some unemployed people stop looking for a job so they are no longer counted in the labor force.

- Part-Time (Underemployed) Workers-
  - Someone who is part-time but wants to be full-time is still considered fully employed.

- Race/Age Inequalities-
  - Hispanics – ______
  - African American- ______
  - Teenagers- ______

- Illegal Labor-
  - Many people work under the table.
2006 Practice FRQ

(b) Assume that a significant number of workers are involuntarily changed from full-time to part-time employment. Explain how this will affect the number of people who are officially classified as unemployed.

(c) Assume that the government reduces the level of unemployment compensation.

(i) Explain how this affects the natural rate of unemployment.

(b) 2 points:
- One point is earned for asserting that there will be no change in the number unemployed.
- One point is earned for explaining that part-time workers are considered employed.

(c) 4 points:
- One point is earned for asserting that the natural rate of unemployment will fall.
- One point is earned for explaining that people have more incentive to look for work as unemployment compensation diminishes.

Paul Solman Video:
Unemployment

25.2% 10.8% 5.8%
U.S. Unemployment
Dept. of Labor, Bureau of Labor Statistics
1933 1982 2003
AP Macroeconomics
Unit 2: Measurement of Economic Performance
2-5. Unemployment

THAT’S IT