

Macroeconomics & the World Economy

Day 3 – Labor Force



Like Star Wars... only you get paid

FINAL NOTES



Objectives

- **Discuss why employment levels are so important in macroeconomics**
- **Understand how the Unemployment Rate is calculated**
- **Identify and compare the 4 Types of Unemployment**
- *Terms:*
 - **Labor Force**
 - **Unemployment**
 - **Unemployment Rate**
 - **Seasonal U...**
 - **Frictional U...**
 - **Structural U...**
 - **Cyclical U...**

Remind me...

- *How is performance measured in Macroeconomics?*
- *What is inflation?*
- *What is GDP?*
- *Today we talk about the last measure of performance... unemployment*

Labor

- *Remember WAAAAAY back when, the Factors of Production? What is “labor”*
- *And it comes in what two types?*
 - *Manual and Skilled*
- *So... Human Efforts in Production = Labor*
 - *That's in Microeconomics*
- *In Macroeconomics Labor is larger...*

Labor Force

- All persons who are over 16 who are either working for pay or actively seeking employment
- *So, NOT the following:*
 - *Under 16 workers*
 - *Volunteers*
 - *Those not seeking work*
 - *Like college students*
 - *So then we have...*



Unemployment

- **NOT** people who don't have a job
- It is those from the Labor Force without a job
- The inability of Labor Force participants to find jobs
 - *What's the difference?*
- We only measure those who WANT a job, are trying to GET a job, and yet don't have one
- *Let's do an example of how we measure it...*



Unemployment and Licorice

Unemployment Rate

- **Proportion of the Labor Force that's unemployed**

$$\text{Unemployment rate} = \frac{\text{number of unemployed people}}{\text{size of the labor force}}$$

- *We will look at some later...*

Four Types of Unemployment

- **Seasonal**
- **Frictional**
- **Structural**
- **Cyclical**

Seasonal Unemployment

- **Caused by seasonal changes**
- *i.e. when school gets out for the summer*
- *Or holiday jobs that are temporary*



Frictional Unemployment



- **Brief period of unemployment associated with a job search**
- *i.e. when you graduate and start looking for a job*

Structural Unemployment

- **Results from differences between skills needed and skills provided**
- *i.e. when new technology makes skills for the older one not needed*



Cyclical Unemployment



- **When there are not enough jobs to go around**
- *i.e. when there is a downturn in the economy (or negative economic growth)*

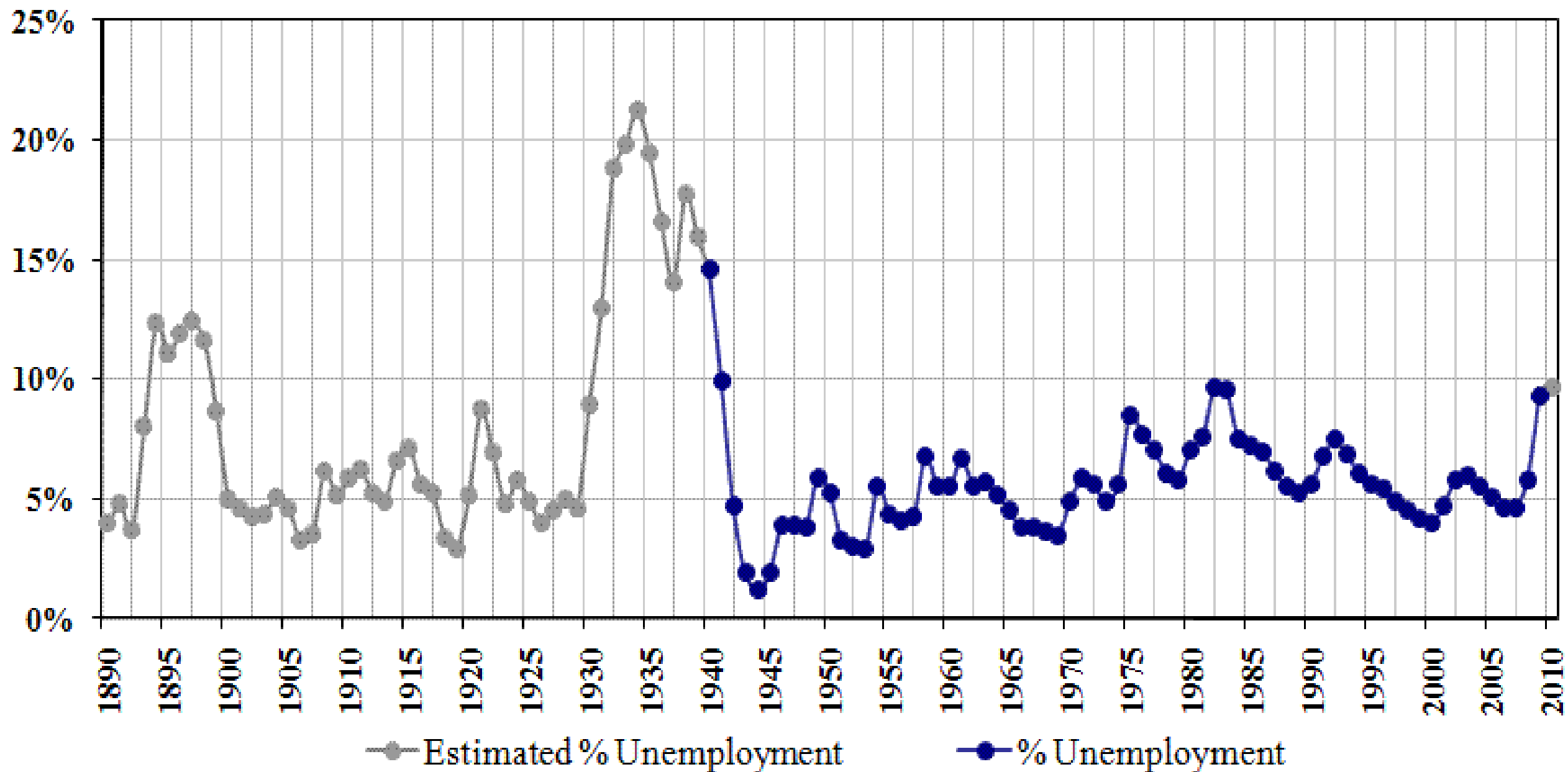
The Importance of Unemployment

- *Which of these four types can a government actually do something about?*
- *WHAT can we do?*
- *For Structural?*
 - *Retrain*
- *For Cyclical?*
 - *Find ways to create new jobs, encourage growth, etc.*

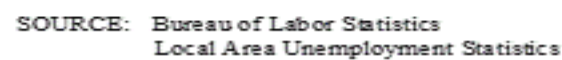
And finally...

- Is it possible / reasonable to have zero unemployment?
- NO!
- “Full Employment” is considered between 4 and 6 percent
- *So let's see where we measure up...*

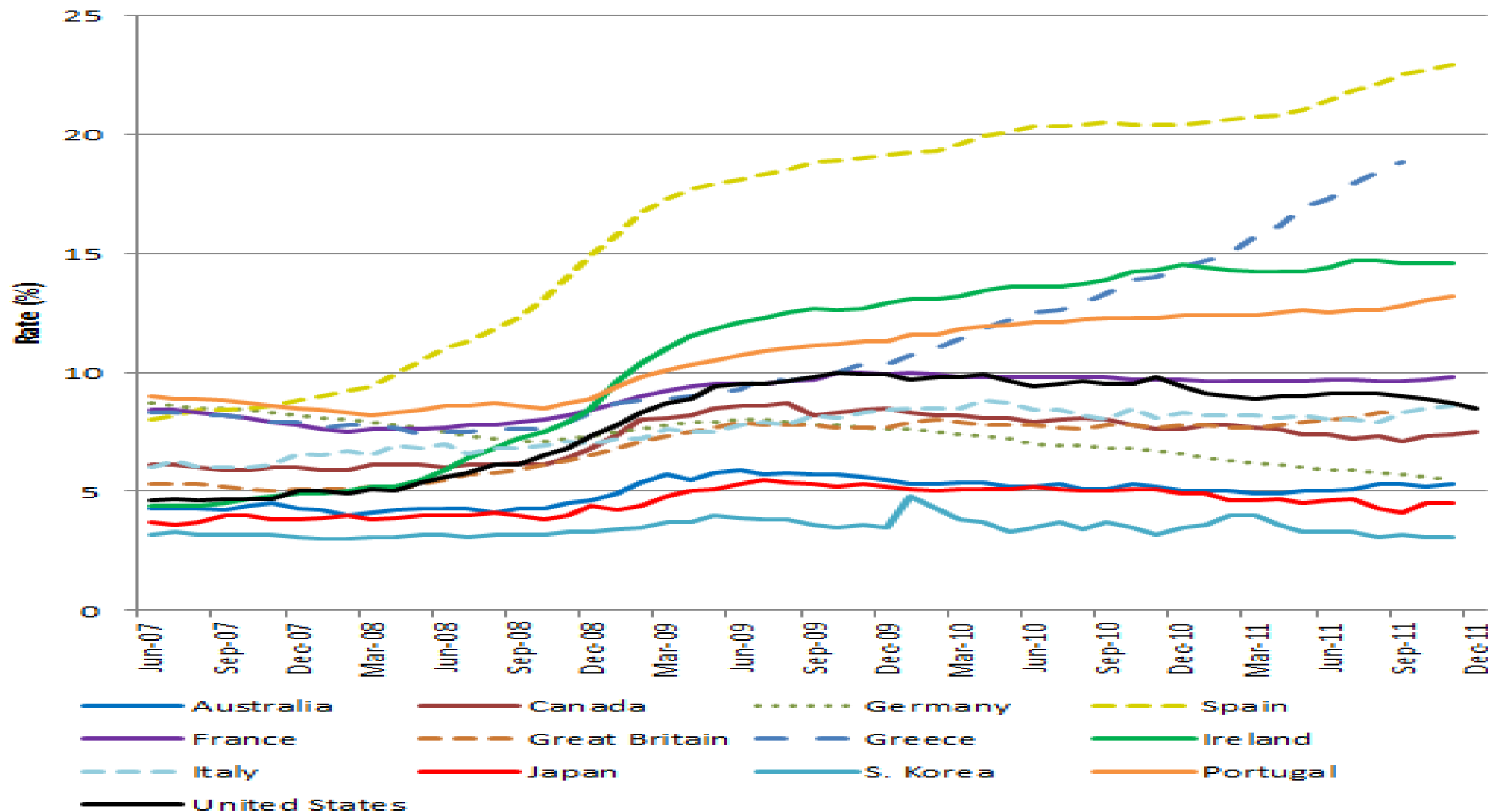
United States - Unemployment Rate (1890 - 2009)

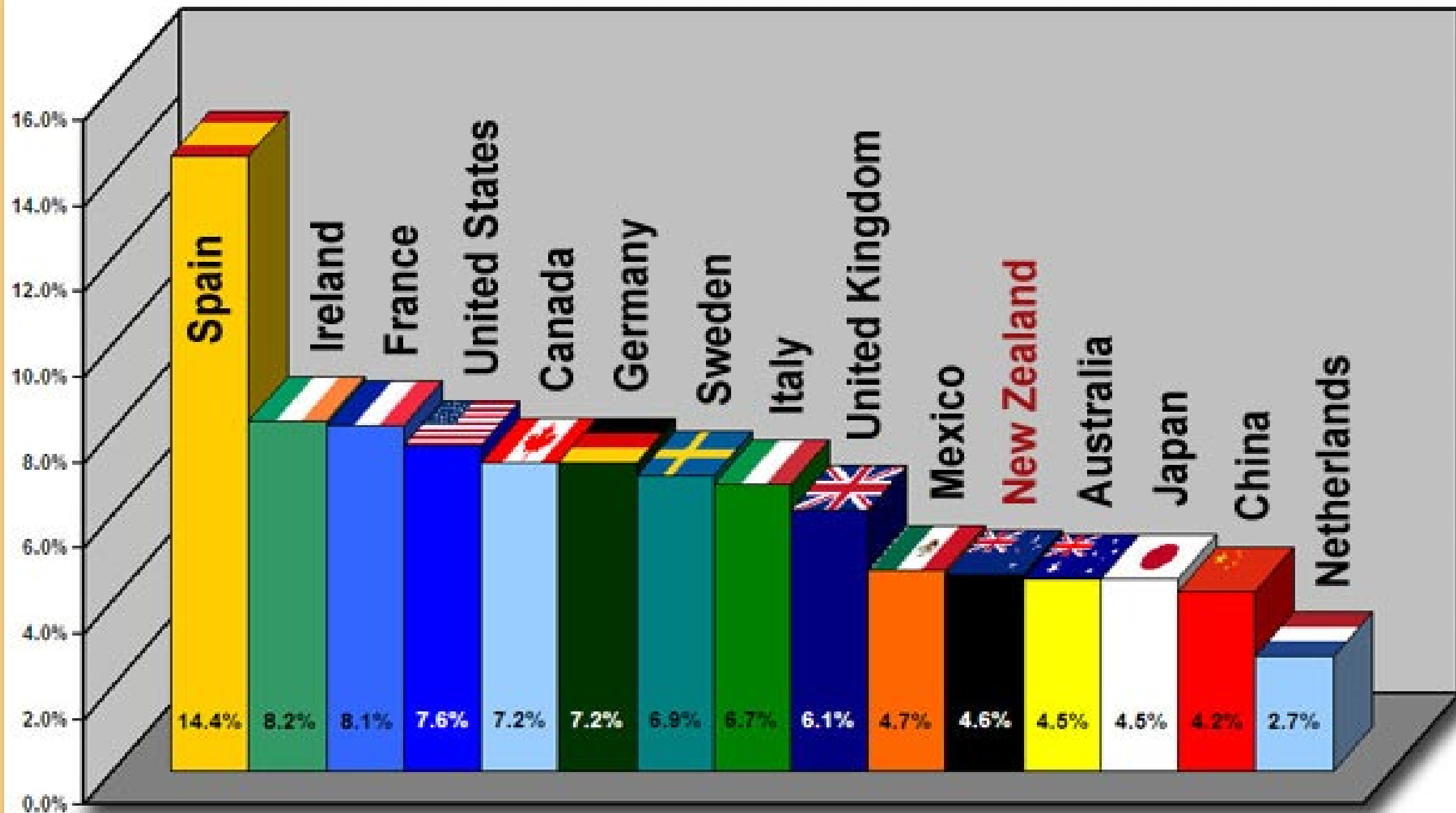


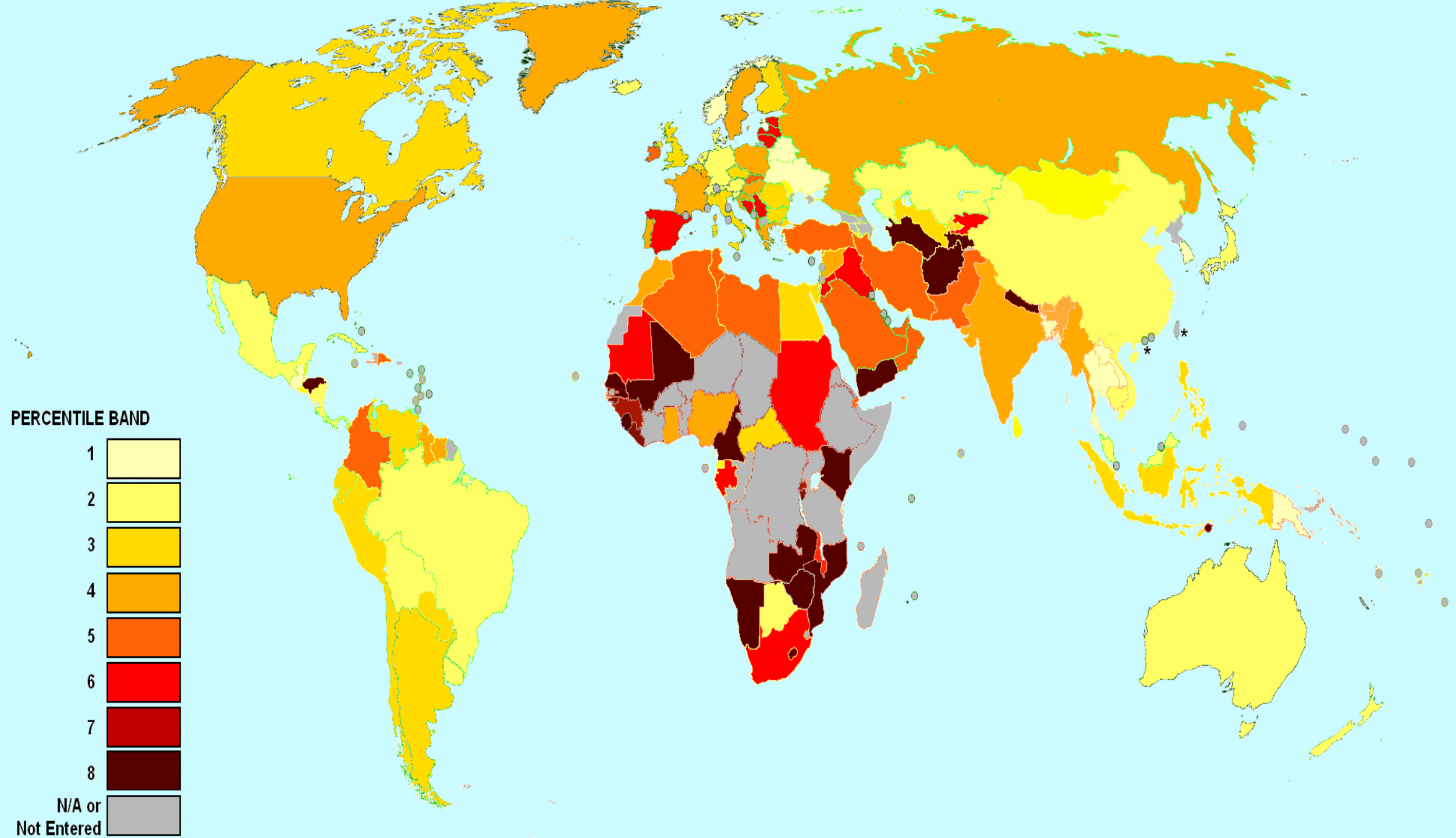
(U.S. rate = 7.4 percent)



Unemployment Around the World







And so...

- That concludes Economics 101
- We have talked about how Consumers make choices, and that effect on Supply and Demand...
- We talked about Businesses, and how they make decisions in Production...
- *We studied how government makes decisions economically...*
- *And finally, how we measure Macroeconomics.*

Fundamental Principle of Economics ?

- **SCARCITY!**

- Nothing is infinite. Not money, not resources, not time (*and not this class*)

- So use your limited resources wisely

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