Jobs and Unemployment
When you have completed your study of this chapter, you will be able to

1. Define the unemployment rate and other labor market indicators.

2. Describe the trends and fluctuations in the indicators of labor market performance in the United States.

3. Describe the sources and types of unemployment, define full employment, and explain the link between unemployment and real GDP.
■ Current Population Survey

Every month, the U.S. Census Bureau surveys 50,000 households to establish the sex, age, and job market status of each member of the household.

Working-age population

Total number of people aged 16 years and over who are not in a jail, hospital, or some other form of institutional care.
The working-age population is divided into those in the labor force and those not in the labor force.

**Labor force**

The number of people employed plus the number unemployed.
Population Survey Criteria

The survey counts as employed all persons who, during the week before the survey:

1. Worked at least 1 hour in a paid job or 15 hours unpaid in family business.

2. Were did not work but who had jobs from which they were temporarily absent.
The survey counts as unemployed all persons who, during the week before the survey:

1. Had no employment

2. Were available for work,

and either:

1. Had made efforts to find employment during the previous four weeks, or

2. Were waiting to be recalled to a job from which they had been laid off.
Figure 21.1 shows population labor force categories. The figure shows the data for June 2002.
Two Main Labor Market Indicators

- The unemployment rate
- The labor force participation rate

**Unemployment rate**

The percentage of people in the labor force who are unemployed.

\[
\text{Unemployment rate} = \frac{\text{Number of people unemployed}}{\text{Labor force}} \times 100
\]
21.1 LABOR MARKET INDICATORS

Labor force participation rate

The percentage of the working-age population who are members of the labor force.

\[
\text{Labor force participation rate} = \frac{\text{Labor force}}{\text{Working-age population}} \times 100\%
\]
Discouraged Workers

Discouraged workers

People available to work but have not made efforts to find a job within the previous 4 weeks. Discouraged workers are NOT a part of the labor force.
Unemployment

Figure 21.2 shows the U.S. unemployment rate: 1962–2002. The average unemployment rate between 1962 and 2002 was 5.9 percent.
The Participation Rate

The participation rate increased from 59 percent during the 1960s to 67 percent during the 1990s.

Between 1962 and 2002, the participation rate for women increased from 38 percent to 60 percent.

Between 1962 and 2002, the participation rate for men decreased from 82 percent to 74 percent.
Figure 21.3 shows the changing face of the labor market. The labor force participation rate of women has increased.
The labor force participation rate of men has decreased.

The average participation rate of both sexes has increased.
Aggregate hours (billions of hours per year)

- 1982 recession
- Mid-1970s recession
- 1990–1991 recession
- 2001 recession

Year

(a) Aggregate hours
Sources of Unemployment

People who become unemployed are:

- Job losers—people who are laid off from their jobs
- Job leavers—people who voluntarily quit their jobs
- Entrants and reentrants—people who have just left school or who are now looking for a job after a period out of the labor force.
Figure 21.6 shows unemployment by reasons.

Job losers are the biggest group, and their number fluctuates most.
RECENT UNEMPLOYMENT

![Graph showing recent unemployment rates from Jan, 2000 to Aug, 2003. The graph indicates a steady increase in unemployment rate over the years.](image)
How Unemployment Ends

People who end a period of unemployment are either:

- Hires and recalls—people who have been hired in a new job or recalled after a temporary layoff.
- Withdrawals—people who have stopped looking for jobs.
Figure 21.6 summarizes the labor market flows.
Job losers and job leavers become unemployed or leave the labor force.
21.3 UNEMPLOYMENT

Entrants and reentrants become unemployed or get jobs.
Unemployment ends when a person is hired or recalled.
21.3 UNEMPLOYMENT

... or when a person withdraws from the labor force.
21.3 UNEMPLOYMENT

- **Types of Unemployment**

  **Frictional unemployment**

  The unemployment that arises from normal labor turnover—from people entering and leaving the labor force and from the ongoing creation and destruction of jobs.

  **Structural unemployment**

  The unemployment that arises when changes in technology or international competition change the skills needed to perform jobs or change the locations of jobs.
Seasonal unemployment
The unemployment that arises because of seasonal weather patterns.

Cyclical unemployment
The fluctuating unemployment over the business cycle that increases during a recession and decreases during an expansion.
Figure 21.8(b) shows unemployment demographics.

Black unemployment is more than twice that of white.

Teenage unemployment is three times that of workers aged 20 and over.
Full Employment

Full employment

When there is no cyclical unemployment or, equivalently, when all the unemployment is frictional or structural.

Natural unemployment rate

The unemployment rate at full employment.
21.3 UNEMPLOYMENT

Unemployment and Real GDP

Because the unemployment rate fluctuates around the natural rate, real GDP fluctuates around potential GDP.

Potential GDP

The level of real GDP that the economy would produce if it were at full employment.

When the unemployment rate is above the natural rate, real GDP is below potential GDP.

When the unemployment rate is below the natural rate, real GDP is above potential GDP.
Figure 21.9(a) shows the relationship between unemployment and real GDP.

As the unemployment rate fluctuates around the natural rate unemployment (part a), real GDP fluctuates around potential GDP (part b).
UNEMPLOYMENT OVER TIME

Unemployment Rate