

# Unemployment



# Definition

Is a state in which there are qualified workers who are available for work at the current wage rate and who do not have jobs.



# Costs of Unemployment

- Personal Cost
  - Loss of pay cheque
  - Loss of self-esteem
  - Increase in stress related psychological problems
  - Increase in incidence of crime, suicide, and mental illness
- Economic Cost
  - Loss in output

# Measuring Unemployment

- Labour force
  - Those in the adult population who are either working or looking for work
- *Unemployed*
  - Those with no job who are looking for work
- *Unemployment rate*
  - Measures the percentage of those in the labour force who are unemployed

*Unemployment rate*

= the number unemployed /the labour force

Does not include discouraged workers

- *Discouraged workers*
  - Those who are no longer looking for work but are unemployed

# Labour Force Participation Rate

- *Labour Force Participation Rate*
  - = The labour force / the adult population
  - Convergence of the participation rates of men and women over last 40 years as more women enter the labour force

# Types of Unemployment

- **Four types of unemployment**
  - **Frictional unemployment**
  - **Structural unemployment**
  - **Seasonal unemployment**
  - **Cyclical unemployment**



# Frictional Unemployment

- *Time required to bring together labour suppliers and labour demanders*
  - Employers need time to learn about the talent available
  - Job seekers need time to learn about employment opportunities
- Generally short-term and voluntary



# Structural Unemployment

- Exists because unemployed workers often
  - do not have the skills demanded by employers, or
  - mismatch of skills or geographic location
- Occurs because changes in tastes, technology, taxes, or competition reduce the demand for certain skills and increase the demand for other skills

# Seasonal Unemployment

- Unemployment caused by seasonal changes in labour demand during the year
  - For example, after the Christmas season, demand for retail employees reduces



# Cyclical Unemployment

- Occurs because of business cycle fluctuations in output that occurs during recessions



- Government policies are used to reduce this type of unemployment
  - By stimulating aggregate demand recessions

# Full Employment

- Full employment
  - Occurs when the only unemployment is frictional, structural, or seasonal
  - Does not mean zero unemployment
  - Counts only cyclical unemployment