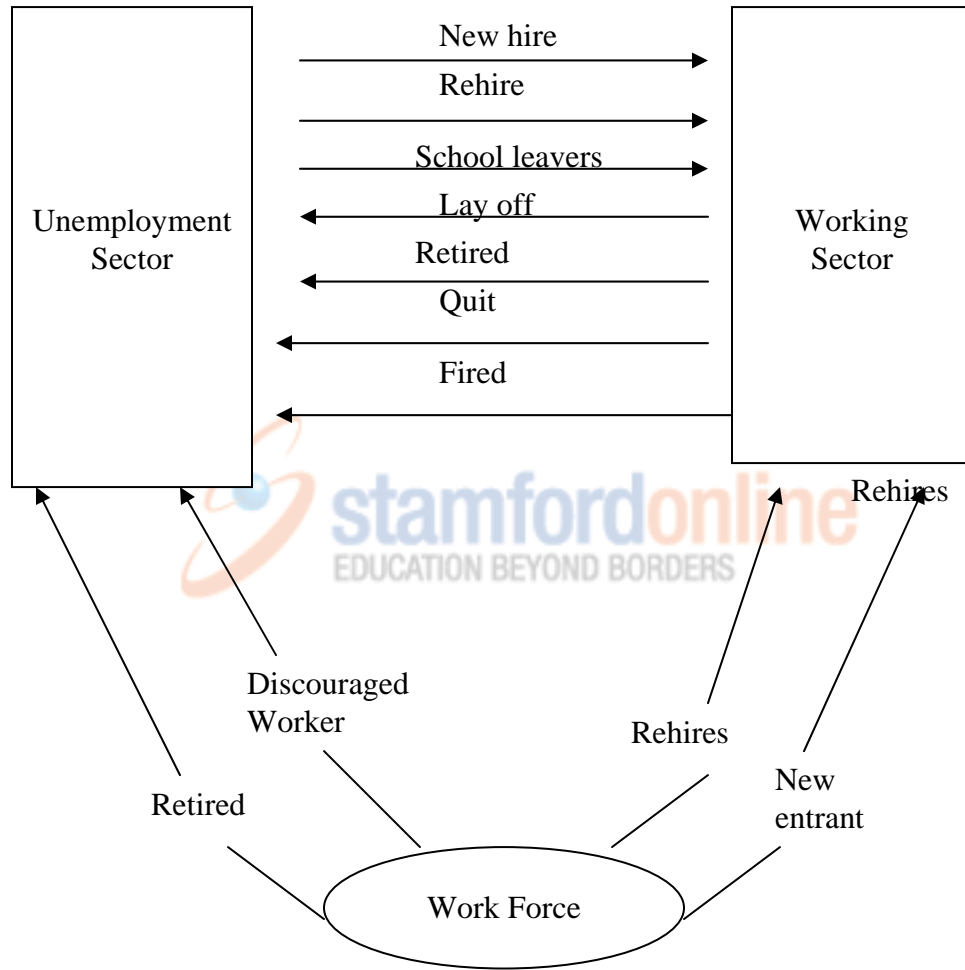


WEEK 8: UNEMPLOYMENT

The term unemployed refers to those who are willing and able to work but are unable to find jobs.



The Labour Force Flow

TYPES OF UNEMPLOYMENT

Unemployment is not a uniform phenomenon. Unemployment exists for a number of reasons. When we list those reasons, we are pinpointing the causes of unemployment.

- i) **Frictional Unemployment** \Rightarrow temporarily unemployment
This refers to people displaced by the normal workings of the economy. It is inevitable in a developing economy that people will, from time to time, change jobs and may perhaps be unemployed for some weeks as they wait to take up the next job.

- ii) **Seasonal**
Some jobs are dependent upon the weather and the season.

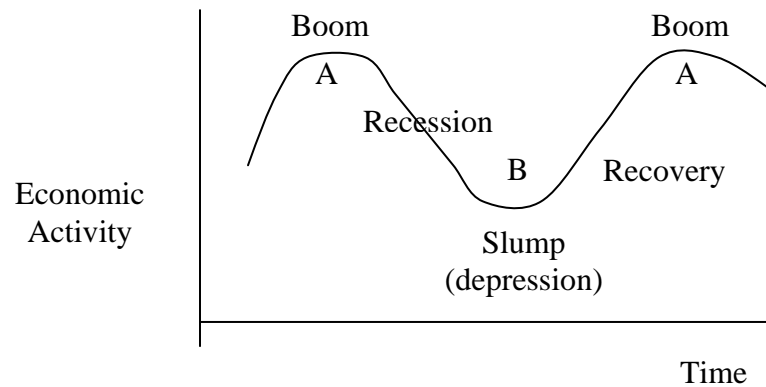
- iii) **Structural**
This is unemployment resulting from a change in the structure of the economy. For example, it could be the result of the imbalance caused by the decline of one industry and (hopefully) the rise of another. Unemployment results when new industries do not create enough jobs to employ those made redundant, or because the new industry is in a different area or requires different skills. This is long run unemployment.

- iv) **Technological**
This occurs when improvements in technology reduce the demand for labour. Advanced technology is capable of producing more output than labour. There will be less wastage of capital and more labour saving as well. The new technology affects unemployment in two ways:
 - a) By doing away with jobs and skills, and
 - b) By creating new jobs which many of the unemployed are incapable of doing.

This is long run unemployment

v) General or Cyclical

The general or cyclical unemployment is prominent. This is due to the fluctuation of economy activity. There are 4 phases in the cycle:



- a) Slump
- b) Recovery
- c) Boom
- d) Recession

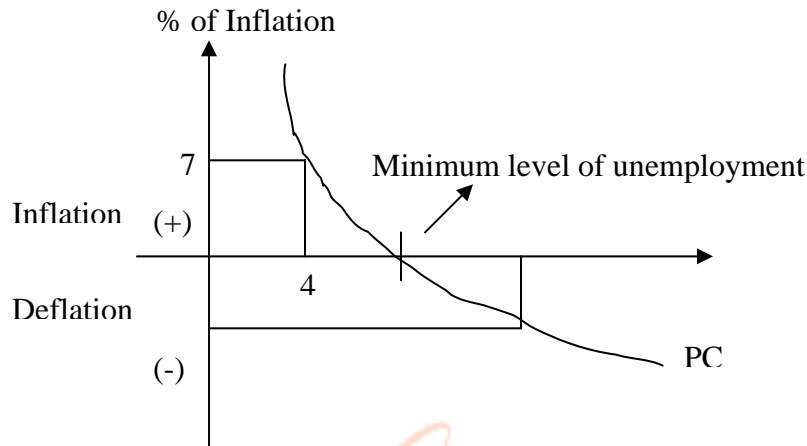


Cost or effect of unemployment:

- 1) output \downarrow \Rightarrow National Income \downarrow \Rightarrow Economic declining (recession)
- 2) Social problem / cost \uparrow = Robbery, killing, stealing, etc.
- 3) Human cost \Rightarrow Skill \downarrow (long time not working) \Rightarrow training, etc.

PHILLIPS CURVE

Phillips curve shows the connection between the rate of inflation and the rate of unemployment.



Notes : Inflation : $AD > AS$
 Deflation : $AS > AD$

From the diagram, it shows that when the rate of unemployment is high, the rate of inflation is low. Conversely, when the rate of unemployment is low, the rate of inflation would definitely be high. In other words, there is a negative relationship.

Learning Outcomes:

Students should be able to:

- Define and measure unemployment
- Describe different types of unemployment
- Analyse potential costs of unemployment

Main Reference

Case, K. E., & Fair, R. C. (2007). *Principles of Economics* (8th ed.). Prentice Hall, Chapter 20.

Other Reference

Slooman, J. (1999). *Essentials of Economics* (3rd ed.). Prentice Hall, Chapter 13.

Review Questions

1. What is a Phillips curve?
2. Explain why there should be an inverse relationship between the rate of unemployment and the rate of inflation as a result of shifts in aggregate demand along a stable, positively sloped aggregate supply curve.

