

Lecture 3 Notes

Unemployment – Chapter 7

Unemployment Rate: the percentage of the labour force that is unemployed

Labor force: The sum of employed and unemployed workers in the economy.

Discouraged workers: People who are available for work but have not looked for a job during the previous four weeks because they believe no jobs are available for them.

- To be classified as **employed**, a person must have worked *only 1 hour or more in the week before the survey*.
- To be classified as **unemployed**, a person must not have worked at all in the week before the survey, must have been actively looking for work in the past 4 weeks, and must be ready to start work immediately.

The unemployment rate measures the percentage of the labour force that is unemployed.

$$\text{Unemployment rate} = \frac{\text{Number of unemployed}}{\text{Labour force}} \times 100$$

Labour force participation rate: The percentage of the working age population that is in the labour force.

$$\text{Labour force participation rate} = \frac{\text{Labor Force}}{\text{Working age population}} \times 100$$

Problems with measuring the unemployment rate

1. The number of discouraged workers increases during a recession
 - Unemployment rate appears lower than it would be otherwise
2. Under-employed workers
 - Does not take into account people who work part time or want more working hours
3. Unemployment rate being overstated/understated
 - People can claim to be unemployed but are not – leads to overstated rate

The higher the participation rate, the more labour is available and the higher the level of potential GDP