

Macroeconomics exam summary

UNEMPLOYMENT

How is unemployment measured?

- Employment categories are divided into:
 - employed
 - Unemployed (15 and older, actively looking for job but not employed yet), temporary layoff or waiting to start new job
 - not in the labour force
- The ABS considers a person an adult if he or she is aged 15 or older.
- A person is considered employed if he or she has spent 1 hour of the previous week working at a paid job or family business.

Labour force - the total number of workers, i.e. the sum of the employed and the unemployed.

A person who is neither employed nor unemployed is not in the labour force

Unemployment rate is calculated as the percentage of the labour force that is unemployed.

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

Labour-force participation rate – proportion of the adult population that is in the labour force. (labour force (employed + unemployed) / adult population (15-64)).

Is unemployment measured correctly?

- **Discouraged workers** - people who would like to work but have given up looking for jobs after an unsuccessful search, don't show up in unemployment statistics
- Other people may claim to be unemployed in order to receive financial assistance, even though they aren't truly looking for work.
- **Underemployed:** People who work pt, or casually but would like to work full time but cannot find full time work. This indicates that there are insufficient jobs in the economy. Therefore, the UNE rate understates real UNE.

How long are the unemployed without work?

- Most spells of unemployment are short.
- Most unemployment observed at any given time is long-term.
- As short term unemployment ends in one month, there are more long term unemployed people observed in a given month.

Identifying unemployment

- Two main categories:
 - The natural rate of unemployment (long-run)
 - The cyclical rate of unemployment (short-run)

- Unemployment can never be zero, always fluctuate around the natural rate
 - Natural = this is unemployment rate that is sustainable into the future, given the structural characteristics in the economy.
 - Cyclical unemployment is linked directly to our business cycle.
- **Cyclical Unemployment (downturns of b.c, seasonal)**
 - Cyclical unemployment refers to the year-to-year fluctuations in unemployment around its natural rate.
 - It is associated with with short-term ups and downs of the business cycle
 - Business cycle' driving the short-run fluctuations of the unemployment
 - When cyclical unemployment = 0 , we are at the natural rate of unemployment. Thus, une rate can never be zero (always some positive level of employment)
 - **Natural rate of unemployment (fictional and structural)**
 - The natural rate of unemployment is unemployment that does not go away on its own even in the long run.
 - It is the amount of unemployment that the economy normally (on average) experiences.
 - Around which actual employment rate fluctuates

Natural rate is influenced by the structure of our labour force, social customs and by govt. policy.

Full employment is achieved when real gdp is equal to its long term potential level of output; when the economy is operating at its natural rate of une; when cynical unemployment is equal to zero.

There are two main types of natural unemployment: structural and frictional

- **Frictional unemployment** refers to the unemployment that results from the time that it takes to match workers with jobs.(unemployment due to imperfect info – it takes time to find work (job search)
- Tends to be short term
- Search for the jobs that are best suit their tastes and skills.
- Is some frictional unemployment good? Yes, shows flexibility in labour force, diff opportunities, can lead to higher economic output
- Voluntary type of unemployment e.g. don't like my job, company, I quit job and look for different one

Job search - the process by which workers find appropriate jobs given their tastes and skills.

- results from the fact that it takes time for qualified individuals to be matched with appropriate jobs

Why some frictional unemployment is inevitable?

- **Search unemployment** is inevitable because the economy is always changing.
- Changes in the composition of demand among industries or regions are called sectoral shifts.

- It takes time for workers to search for and find jobs in new sectors.

Public policy and job search

GOV do the following to help people find jobs faster:

- government-financed employment agencies. Neg (priv are more efficient)
- public training programs. pos
- unemployment benefits e.g centrelink. neg
- However, Unemployment benefits > disincentive to work > UNE benefits reduce the hardship of UNE, potentially increasing the amount of time we search and thus frictional unemployment

Structural employment

- **Structural unemployment** is due to a mismatch between the skills required (the skills employers demand) and offered (skills workers have)
 - Tend to be long term

-tech change, industry change, change in the economic role of regions.

- The third type – ‘**classical unemployment**’
 - Minimum-wage laws.
 - Unions.
 - Efficiency wages hypotheses

Classical unemployment can result from the real wage being too high due to minimum-wage laws, union wage bargaining or efficiency wages

- one reason for unemployment is classical unemployment - Minimum-wage laws raise the quantity of labour supplied and reduce the quantity demanded, second reason is unions and third is efficiency wages

Minimum wage laws

When the minimum wage is set above the level that balances supply and demand, it creates unemployment.