

Lecture 4-5: Macroeconomic Measurement: Unemployment

Reading Assignment: Chapter 5

Ideally Considered Unemployed

- Unemployed
 - Not working, willing and able to work
 - Actively seeking a job, willing to accept a job at the prevailing wage
- Not counted as unemployed
 - Unable or unwilling to work, underage, college students, homemakers, retired, in the military

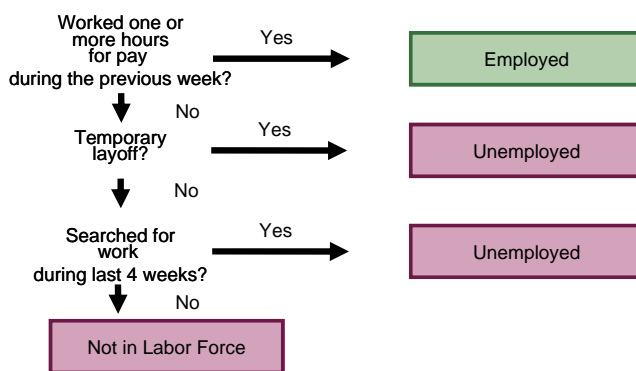
Actually Considered Unemployed

Data on Unemployment in the US

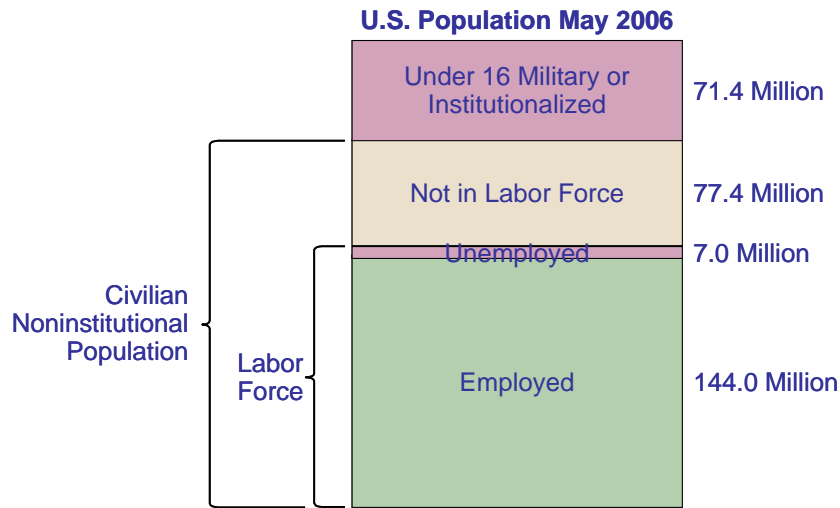
- The source of information about employment status of Americans is the US Census Bureau's Household Survey
 - conducted every month
 - 60,000 Americans are interviewed
- **To best understand what it means to be unemployed (or in/out of labor force) we should take a look at the questionnaire in this survey**

The Census Bureau's Household Survey

Questions About Employment Status



**The Census Bureau's Household Survey
Sample Results**

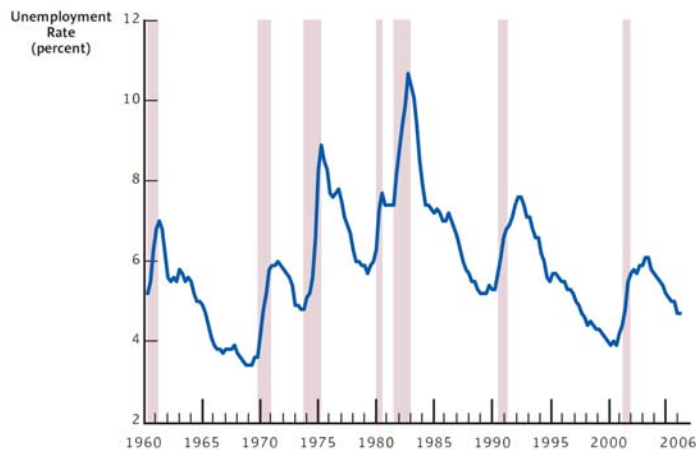


'Noninstitutional' means not in the military or prison.

Unemployment Rate

- Labor force: people who have a job or who are looking for one
Labor force= employed + unemployed
- Unemployment rate: the fraction of the labor force that is without a job – Key measure of unemployment problem

Unemployment Rate in the US, 1960-2006



Problems in Measuring Unemployment

- Involuntary part-time workers
— Would like a fulltime job, but who are working only part time

- Considered employed by the survey
- Discouraged workers
 - Would like a job, but have given up searching for one
 - Considered out of labor force by the survey
- Both understate the problem

Types of Unemployment

- Frictional unemployment
 - Short-term
 - Experienced by people who are
 - Between jobs
 - Just entering the labor market
 - Reentering the labor market
- Seasonal unemployment
 - Related to changes in weather, tourist patterns, or other seasonal factors
 - Short-term

Types of Unemployment

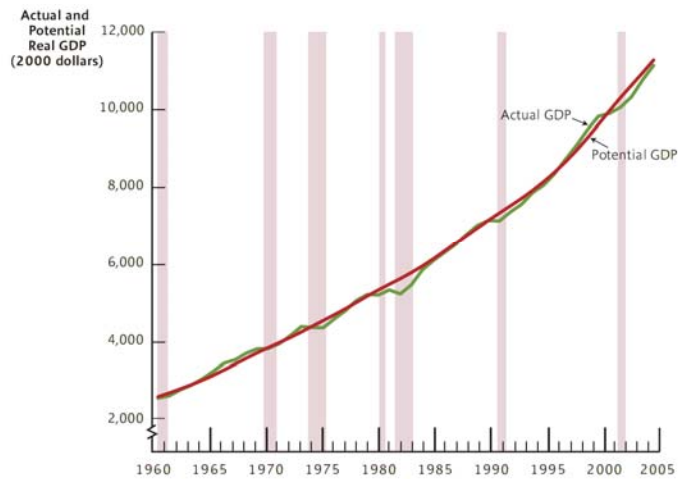
- Structural unemployment
 - Long-term problem
 - Arises from mismatches between
 - Workers' skills and employers' requirements
 - Workers' locations and employers' locations
- Cyclical unemployment
 - Arises from changes in production over the business cycle

The Costs of Unemployment

- Hard to measure
- Economic Costs (measured in dollars)
 - Lost output
 - Goods and services the jobless would produce if they were working
 - In general, a very imperfect measure
 - For the poor the value of this output (=lost earnings) might be very high in utility terms
 - Should take into account the dollar value of involuntary leisure that the unemployed get

Output Lost Due to Unemployment Actual Real GDP vs. Potential Real GDP

(Potential Real GDP is the output that would have been produced if there had been no cyclical and seasonal unemployment)



Broader Costs of Unemployment

- Psychological effects of unemployment
- Setbacks in achieving important social goals of equality and fairness
 - Burden of unemployment is not shared equally among different groups in the population
- Disruption to long-term career development and loss of human capital