

Unemployment

The level of employment is an important measure of economic performance. The unemployment rate measures how well we are achieving the goal of full employment. It is found using a national survey of about 60,000 households. Each month the federal government asks these households about the employment status of household members aged 16 and older (the adult population). The survey puts each person in one of three categories: employed, unemployed, and not in the labor force. People who are at work (the employed) plus those who are not working but are actively looking for work (the unemployed) make up the *labor force*. People who are not working and are not seeking a job are not in the labor force. The category “not in the labor force” includes individuals who are unable to work or choose not to work.


Measuring Unemployment

Only those people who are willing and able to work are considered part of the labor force. The size of the labor force as a percentage of the total population measures the labor resources available to produce in the economy. The *labor force participation rate* (LFPR) is defined as the percentage of the population that is considered part of the labor force.

$$\text{LFPR} = \frac{\text{labor force}}{\text{population}} \times 100.$$

The *unemployment rate* (UR) is defined as the number of people who are unemployed as a percentage of the labor force.

$$\text{UR} = \frac{\text{number of unemployed}}{\text{labor force}} \times 100.$$

 **Student Alert:** A person must be actively seeking a job to be considered unemployed. The LFPR is the labor force as a percentage of the *population*. The UR is the number of people unemployed as a percentage of the *labor force*. Make sure to use the right denominator!

1. Fill in the last three columns of Table 2-6.1. All of the population and labor-force data are in millions.



Table 2-6.1

Civilian Employment

Year	Civilian non-institutional population age 16 and over	Civilian labor force			UR	LFPR
		Employed	Unemployed	Total		
1970	117	66	4			
1980	137	79	4			
1990	168	99	8			
2000	188	117	7			
2010	209	135	6			

Types of Unemployment

The unemployment rate measures unemployment in the economy but it does not provide information about *why* people are unemployed. To better understand unemployment in the economy, unemployment is classified based on the reason people are willing and able to work but can't find a job. There are three types of unemployment:

- *Frictional unemployment* includes people who are temporarily between jobs. They may have quit one job to find another, or they could be trying to find the best opportunity after graduating from high school or college.
- *Cyclical unemployment* includes people who are not working because firms do not need their labor due to a lack of demand or a downturn in the economy. Cyclical unemployment is due to the business cycle.
- *Structural unemployment* involves mismatches between job seekers and job openings. Unemployed people who lack skills or do not have sufficient education for available jobs are structurally unemployed.

There will always be some frictional and structural unemployment in the economy because people are always moving and changing jobs and because the structure of the economy is always changing, for example, as technology changes. Cyclical unemployment will exist or not, depending on the phase of the business cycle the economy is experiencing.

For each of the following situations, put the appropriate letter before the example.

F if it is an example of *frictional* unemployment.

C if it is an example of *cyclical* unemployment.

S if it is an example of *structural* unemployment.

N if it is an example of someone who is *not* employed.

- ____ 2. A computer programmer is laid off because of a recession.
- ____ 3. A literary editor leaves her job in New York to look for a new job in San Francisco.
- ____ 4. An unemployed college graduate is looking for his first job.
- ____ 5. Advances in technology make the assembly-line worker's job obsolete.
- ____ 6. Slumping sales lead to the cashier being laid off.
- ____ 7. An individual refuses to work for minimum wage.
- ____ 8. A high school graduate lacks the skills necessary for a particular job.
- ____ 9. Workers are laid off when the local manufacturing plant closes because the product made there isn't selling during a recession.
- ____ 10. A skilled glass blower becomes unemployed when a new machine does her job faster.
- ____ 11. An individual has been laid off during a recession and has been looking for work unsuccessfully for so long that he has finally given up actively seeking a job. (*Note: This person is known as a discouraged worker.*)
- ____ 12. A college graduate works at a job that does not require a college education.