

Employment

Potential GDP (output)

- Define as: The maximum sustainable level of output
- This amount equals about 3% growth per year
- "Actual" GDP can be greater or less than "Potential" GDP

Full Employment:

- The "Normal" rate of unemployment, the amount due to job shopping and imperfect information
- The sustainable employment level is 95%

The Labor market

- Labor force: the number of people, age 16 and up, who are considered employed OR unemployed
- Employed- you currently have a job
- Unemployed- you are:
 - o 1. actively looking for a job or
 - o 2. you are waiting to return to a previous job
- EX: Retired people are considered to be not in the labor market, if you are working or volunteering WITHOUT pay, you are also not included.
- In order to be considered "unemployed" you must have searched for work in the last 4 weeks
- If you are NOT in the labor force, you are NOT working and NOT looking to have a job

- o EX: a full time student, retired people, a homemaker
- Labor Force population rate: the fraction of adult population that IS in the labor force
 - o Over time, women have been participation MORE in the labor force, while men have been participation LESS.
- Unemployment rate: the percentage of the labor force that is unemployed
 - o The highest rate of people who are unemployed are men, age 16-19.
 - o The minimum wage causes the unemployment rate to increase, especially for young workers (people with little to no experience)
 - o The NBEA officially dates the start and end of a recession

Labor Market Equations:

- Labor force participation rate = Labor force / adult population
 - o Percent of people in the labor force
- Unemployment rate = unemployed / labor force
 - o Fraction of labor force w/o a current job
- Employment population ratio = employed / adult population
 - o People that are employed

Three types of unemployment:

- Frictional
- Structural
- Cyclical

Frictional Unemployment: Caused by constant changed in the labor market

- Imperfect information
- Search activities
- Workers have the skills to fill an opening
- EX: students that are fresh out of college CAN preform the actions, but do not have “Experience” so they cannot get a job
 - o This occurs when you’re trying to find the “best fit” job for you (usually short term)

Structural Unemployment: caused by changed in the basic characteristics of the economy

- Some jobs become rare
- New jobs are created
- Workers do NOT have the skills to complete a job
- EX: people who work at record stores or people who created MP3 players. Have been replaced by iPods
- People with structural employment can go to the government and apply for unemployment benefits. They are usually given financial compensation
 - o This benefit can only last up to 99 weeks
 - o Problem: decreases the incentive to get back to work

Cyclical Unemployment: due to recessions and inadequate demand for labor

- Overall unemployment rate rises during a recession
- Unemployment is inversely related to output
- If less people are buying, less needs to be created, meaning that there is a bunch of excess workers, causing many to be fired during this recession

Natural Rate of Unemployment: The “normal” unemployment rate due to frictional and structural unemployment