

Discussion Handout 4: Chapter 15 Unemployment

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I. Definitions

Three categories for working age adults:

1. Employed - all paid workers
2. Unemployed - not working but would like to be
3. Not in the labor force - don't fit in the above categories, not looking for work.

Labor Force = Number employed + Number Unemployed

$$\text{Unemployment Rate} = \frac{\text{Number Unemployed}}{\text{Labor Force}} * 100$$

$$\text{Labor-force participation rate} = \frac{\text{Labor force}}{\text{Adult Population}} * 100$$

Two-types of Unemployment:

1. Frictional - usually short term. It usually takes time to find a new job. Reason there are always some people unemployed.
2. Structural - long term. Might be because an industry is no longer needed, and it takes time for workers to retrain.

Job Search - the process of matching workers and jobs

Big Question: Why do we care about the unemployment rate? What might this measurement miss?

II. Job Search and Public Policy

Concepts:

- Unemployment insurance - Gives about 50% of previous wages to laid off workers for 26 weeks
- Minimum wage laws - set lowest wage that firms can pay workers
- Unions - bargain with employers on behalf of workers over wages, benefits, and working conditions through collective bargaining
- Efficiency wages - firms keep wages higher than the competitive equilibrium in order to incentivize workers to be more productive for the firm or to lessen the chance of finding a replacement worker which may be costly.

Evaluating these policies: Basic Intro analysis of these policies make it seem like they are “bad” because they tend to lead to increased unemployment. As with most things however, when we move beyond the simple case it becomes less straightforward than that. In general, many economists are in support of these policies despite the distortions because of their benefits for workers.

