

Big Question: Why is unemployment a major problem ?

Government

Firms : profit maximiser

Unions / labour: benefits maximiser

different objectives



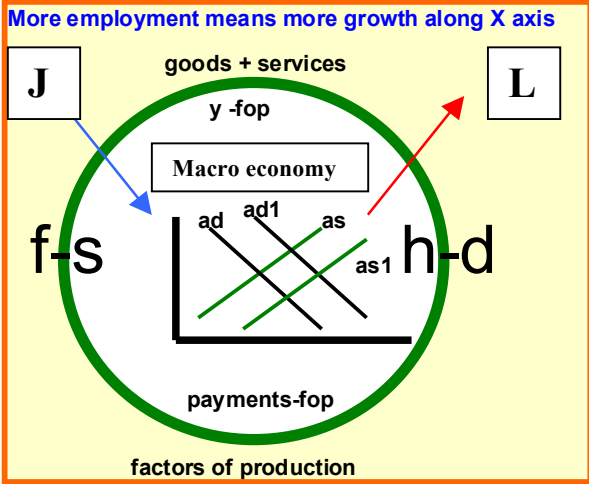
- (A)**
- Types of unemployment
1. Frictional
 2. Seasonal
 3. Structural
 4. Cyclical/ Keynesian or demand deficient
 5. Hidden
 6. Classical or real wage unemployment
 7. Underemployment

- (B) Definition:**
- Unemployment relates to the labour force of a country measuring the number of people who are willing and able to work but do not have jobs
 - It does not measure the number of dependants in the economy ie those unable to work due to age, illness etc
 - Labour force = 60 M and if 6 M are unemployed the rate is 10 %

- (C) Frictional**
- Sometimes describes as “transitional unemployment”
 - Worker forced to leave a job/or leave through personal circumstances
 - Important considerations here
1. Bring the job to the worker. Role of media and government agencies
 2. Unemployment benefits (high or low)

- (D) Structural**
- 2 types to consider
1. Regional. Immobility of labour a factor here
 2. Sectoral . Usually a particular industry

- (E) Seasonal**
- Often connected with weather. Usually peaks in mid winter and low in midsummer. Obvious example is building and tourist industries



- (G) See Blink pp 208-211**
- Cyclical
- Lack of demand is the key factor here:
1. Cyclical because of the tendency of economies to follow cycles of growth and decline
 2. Keynesian because of the emphasis on the lack of demand in the economy
- see diagram 1 below
 - see also webnote 306

- (F) Hidden**
- Statistics can often be unreliable
Rate depends on the definition of unemployment which is used

- (H)**
- Where unemployment exists then the economy is not maximising its resources
- Lower growth
 - Lower income
 - Lower standard of living
 - Political instability
 - Social problems

- (i) Classical or real wage**
- See Blink pp 208-211
- Unemployment exists because wages are too high
 - see diagram 1 below
 - see also webnote 306 for debate between Keynes and monetarists

Diagram 1:

AS- AD of Labour - Equilibrium Unemployment

Webnote 235

Syllabus Items:
92-95 (93 = HL)

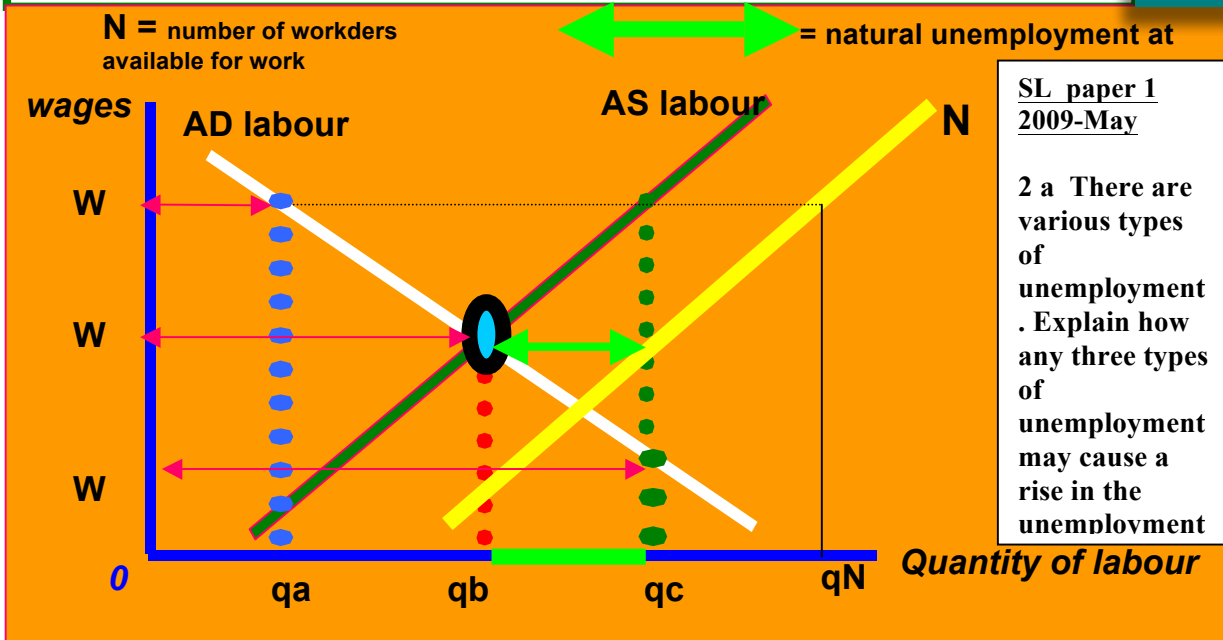


Diagram 2: The Classical /monetarist View: AS- AD of Labour - disEquilibrium Unemployment

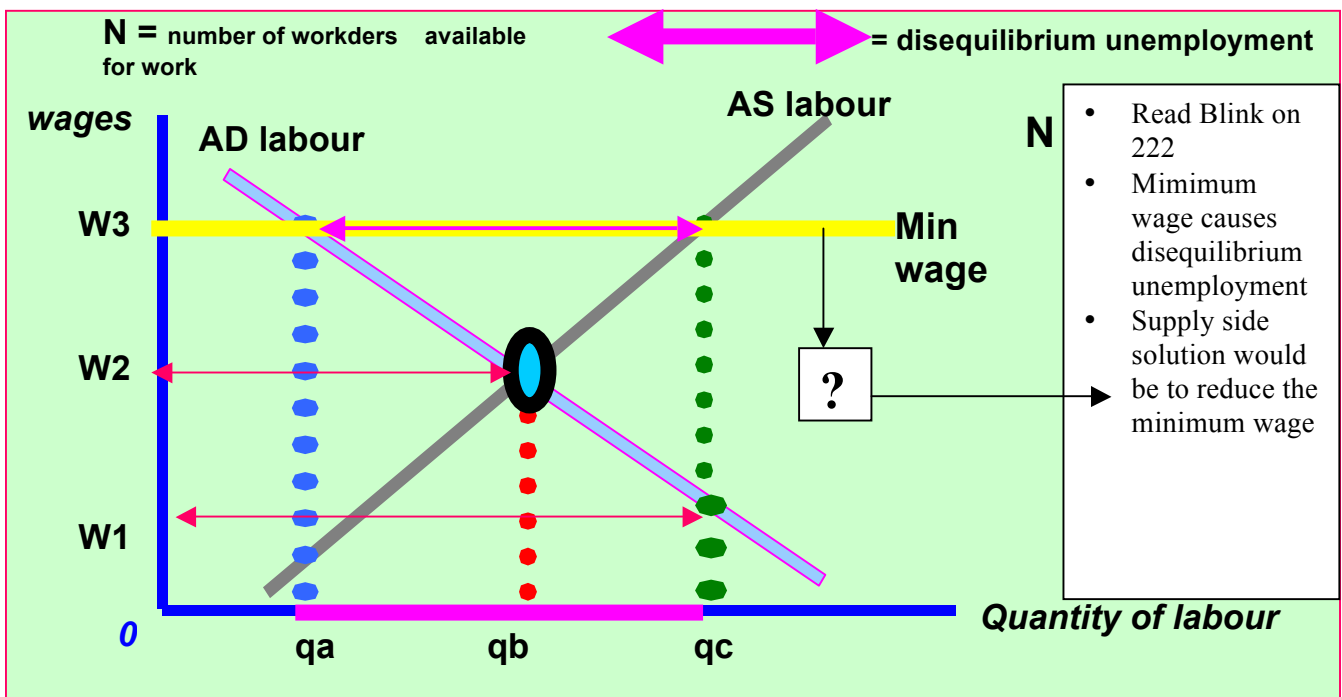


Diagram 3: The Keynesian View

AS- AD of Labour - **disEquilibrium** Unemployment

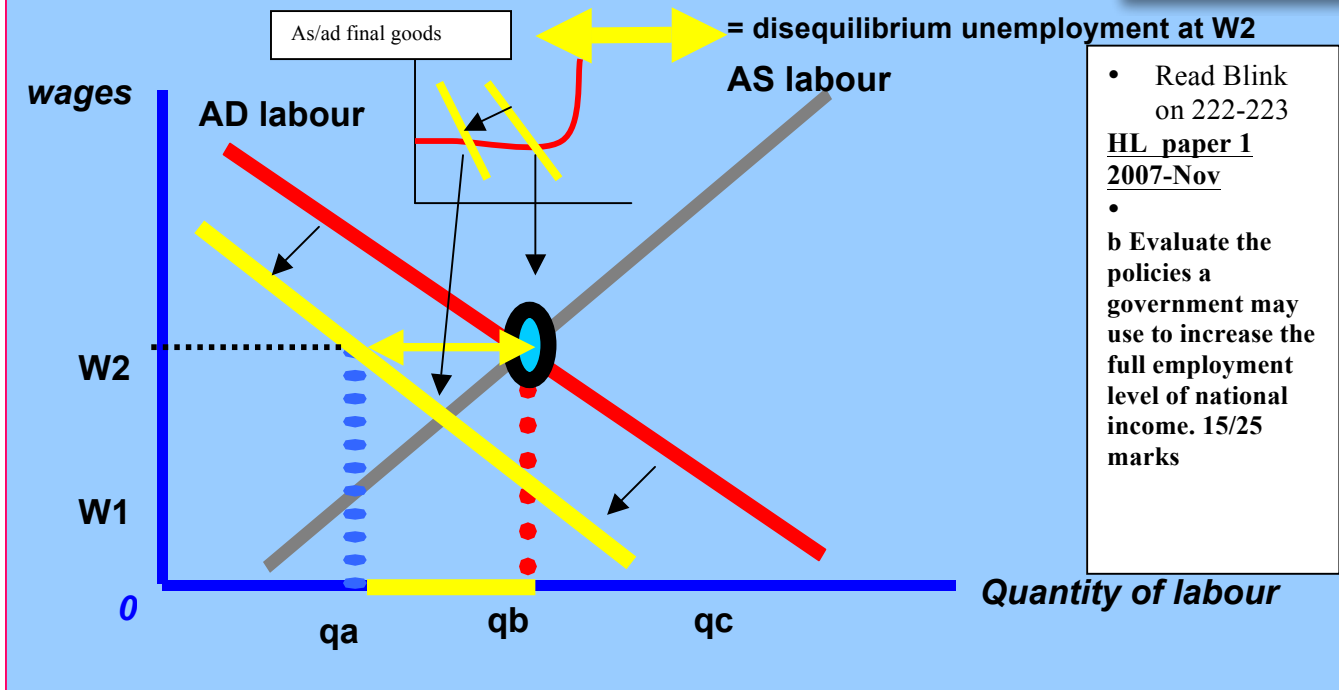


Diagram 4: **2 possible solutions to dis-equilibrium unemployment: shift in as or ad?**

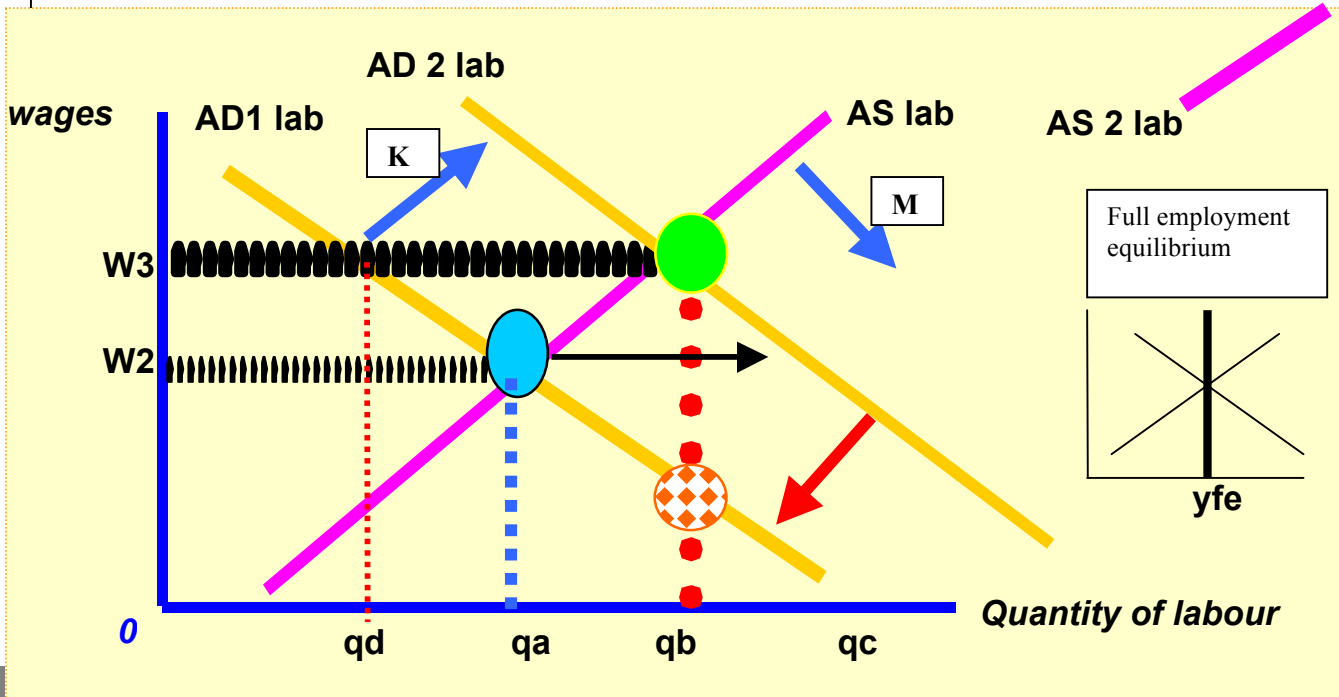


Diagram 4: **Disequilibrium Unemployment**

• Example: Demand for labour operating at qa then:

- Wages at w 3 exceed the required equilibrium (w2 qa). Why? Recession. But wages are 'sticky downwards'.
- Keynesians see no market based solution. **Demand side policies** e.g Fiscal policy could be used to shift AD1 to AD2 in Diagram 4 ie brought about by increased government spending thus raising demand for labour
- Monetarists suggest that market will adjust and increased supply of labour will drive wages down to W2 and equilibrium will be reached at **How? Supply side policies.**

Draw the monetarist solution on diagram 4.