

**Government** — while objectives are largely the same the priorities differ according to the political party

## Firms

- ⊙ Profits
- ⊙ Market share
- ⊙ Competitors

Different objectives

## Unions / labour

- ⊙ Higher wages/ benefits e.g. more vacation
- ⊙ Maintain pace with RPI- Retail price index
- ⊙ Wages are 'sticky' downwards

### (A) Types of unemployment

1. Frictional
2. Seasonal
3. Structural
4. Demand Deficient: Cyclical/ Keynesian or demand deficient (see D below)
5. Hidden
6. underemployment

### (B) IS zero unemployment possible? NO!

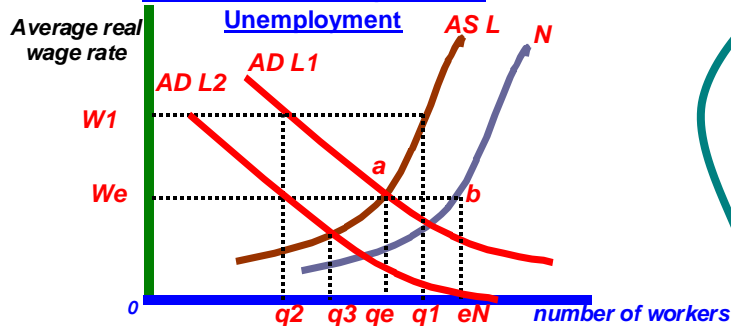
#### Natural Rate of Unemployment

(monetarist / Friedman school – late 1960's)

Is there a natural rate of unemployment or an equilibrium rate of unemployment? Yes!

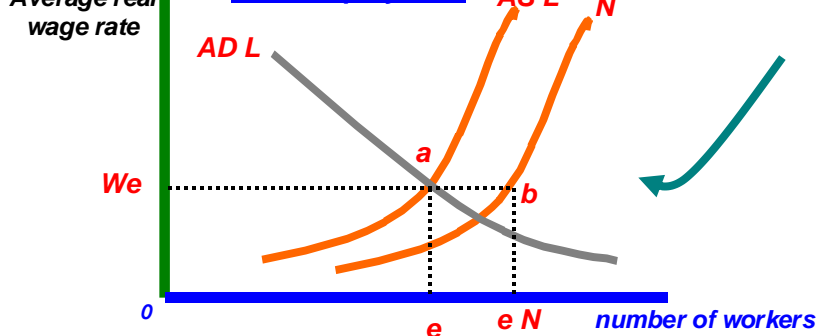
**frictional + structural + seasonal unemployment = 'natural unemployment'.** This is clearly indicated in diagram A whereby at the market wage rate of  $W_e$  a natural level on unemployment exists in the economy the quantity of which is represented by  $ab$  or  $q_e$  or  $q_e N$ . See diagram A. Natural rate is that rate established by market forces. At this rate there is no tendency to change wages

DIAGRAM B: Disequilibrium



Note: the key issue here is that the labour market is in equilibrium at  $W_e$  a  $q_e$

DIAGRAM A: The Natural Rate of Unemployment



Note: the key issue here is that the labour market is in equilibrium at  $W_e$  a  $e$

### (D) Unemployment + Demand:

1. Classical or real wage unemployment
  - ⊙ Trade unions
  - ⊙ Minimum wage legislation
2. Demand deficient or cyclical (Keynesian) unemployment
  - ⊙ Extends across whole economy
  - ⊙ Effectively caused by a fall off in AD for goods and services in the economy (AD L also falls) and whereby the labour markets do not clear
  - ⊙ Labour resists wage cuts and therefore unemployment occurs as labour wage rates do not adjust to the lower demand in the economy. Therefore we have unemployment between  $q_2$  and  $q_e$  in diagram B
  - ⊙ Unemployment is therefore closely connected with low demand in the economy. That is low demand for final goods and services by consumers/households and therefore (consequence) low demand for labour.