**Best Uses:**

* Cyclical( demand deficient) unemployment is a Keynesian concept
* Use the diagram below for a labour market to show how a contraction in AD for final goods and services affects the labour market by shifting to point A or C in diagram a.

**Syllabus Reference 2.3: The Phillips Curve (HL)**

**The SRPC and the LRPC + Unemployment**

***ED 18 Unemployment***

* Economy and labour market commences at qb labour employed. Natural rate of unemployment is 6% or BN in diagram 1. Qb is equivalent to Yfe full employment. If economy contracts and demand for labour shifts to AdL2 then labour should reach equilibrium at qc and we have cyclical unemployment. Keynes and Friedman noted that it was not so simple and the labour market was likely not to adjust to qc but to qa. This is known as disequilibrium unemployment (AB).

**Why?**

* Keynes: markets not efficient and therefore AD intervention required.
* Friedman: trade unions resist wage cuts and market cannot adjust. AS intervention required.
* Note: N = to full labour force. Natural unemployment = qbqN

AdL2

AsL2

AdL1

PL

**Diagram a: AS/AD for Labout**

AsLN

**A**

**N**

**B**

Wage Rate

**C**

qa q c qb (yfe) q N Q Labour

**Diagram b: Long Run Philips Curve**

**LRAS**

**SRAS**

AD

**Recessionary gap**

If government does not use corrective policies to correct the cyclical unemployment then the economy could adjust in the long run to a higher natural rate of unemployment as some of the cyclically unemployed become frictionally/structurally long term unemployed.

At this GDP

Natural unemployment (6%)

**Real GDP**

**Inflation**

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