

# Macroeconomic Objectives

Unemployment

3.3



# What are the 3 main objectives of an economy?



# 3 Macro Objectives

1. Economic Growth
2. Low Unemployment Rate
3. Low and Stable Inflation



**Possible additional goals:** Sustainable Debt, Equity, and Income Distribution

# Definition

## Unemployment

People who are willing, able, and actively seeking employment, but unable to find it.



# Definition

## Labour Force / Work Force

People of working age (18–65) who are employed or unemployed **SEEKING** work.

To be considered in the labour force, 3 criteria must be met:

1. Willing to work
2. Able to work
3. Seeking employment



# Definition

## Discouraged Workers

People who are of working age but have been unemployed and not currently looking for a job. They are not included in the workforce.



# Unemployment Rate

## Unemployment Rate

The number of unemployed workers expressed as a percentage of the total workforce / labour force.

**Unemployment Rate**

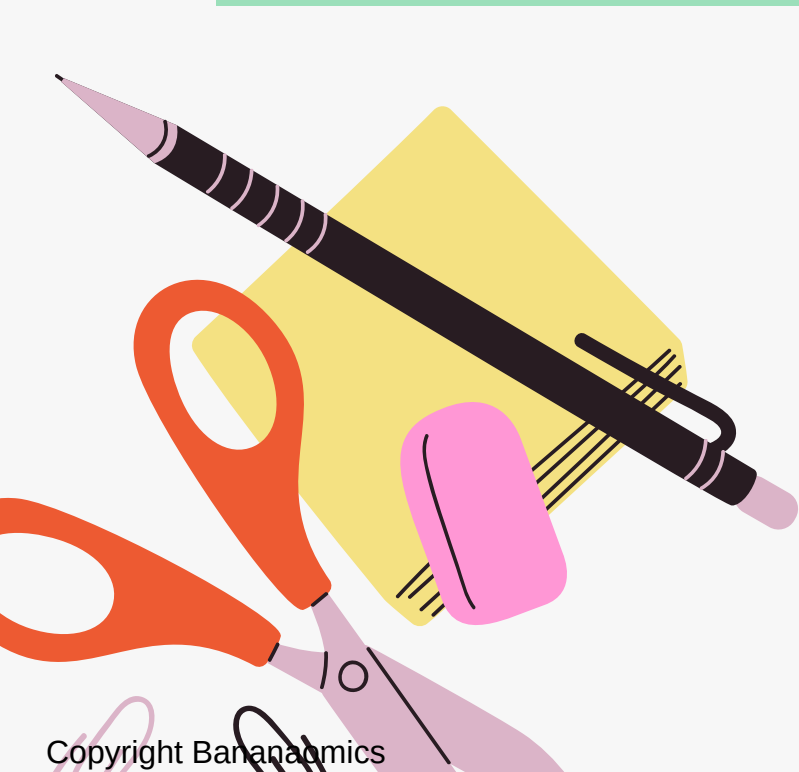
Number of Unemployed



Total Labour Force



100



# Unemployment Rate

## Data

**1.**

**Total Number of Labour Force: 12,347 (thousands)**

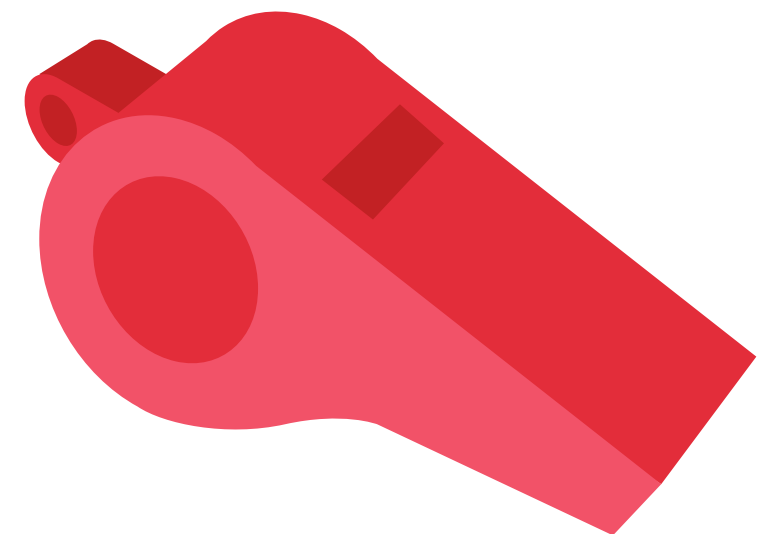
**Number of Employed People: 11,780 (thousands)**

**2.**

**Number of Employed People: 37,000 (thousands)**

**Working Age Population: 43,000 (thousands)**

**Discouraged Workers: 2,800 (thousands)**





# Unemployment Rate

## Data

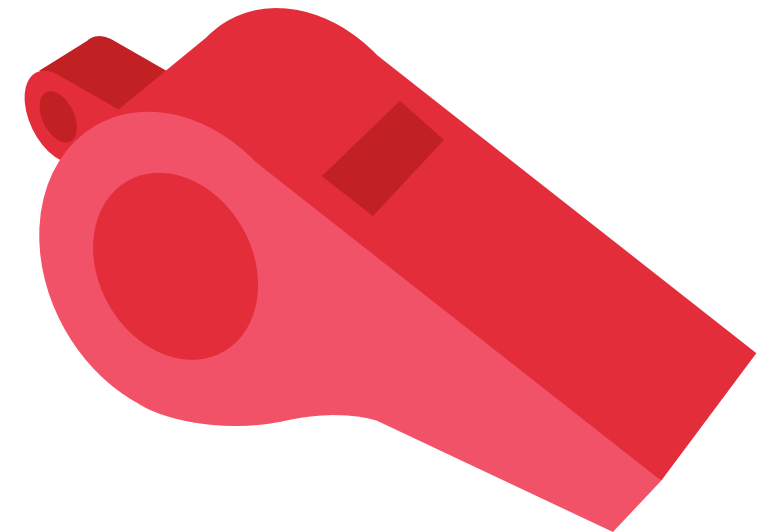
**Find the number of unemployed:**  $12,347 - 11,780 = 567$  thousand unemployed

$$\frac{567}{12,347} \times 100 = \underline{4.59\%}$$

**Labour Force** =  $43,000 - 2,800 = 40,200$

**Number of unemployed:**  $40,200 - 37,000 = 3,200$

$$\frac{3,200}{40,200} \times 100 = \underline{7.96\%}$$



# Difficulties in Measuring Unemployment

## Hidden Unemployment

Workers that have part-time jobs but highly-skilled qualifications are not fully utilizing their efficiency. \*Also known as underemployed\*

## Discouraged Workers

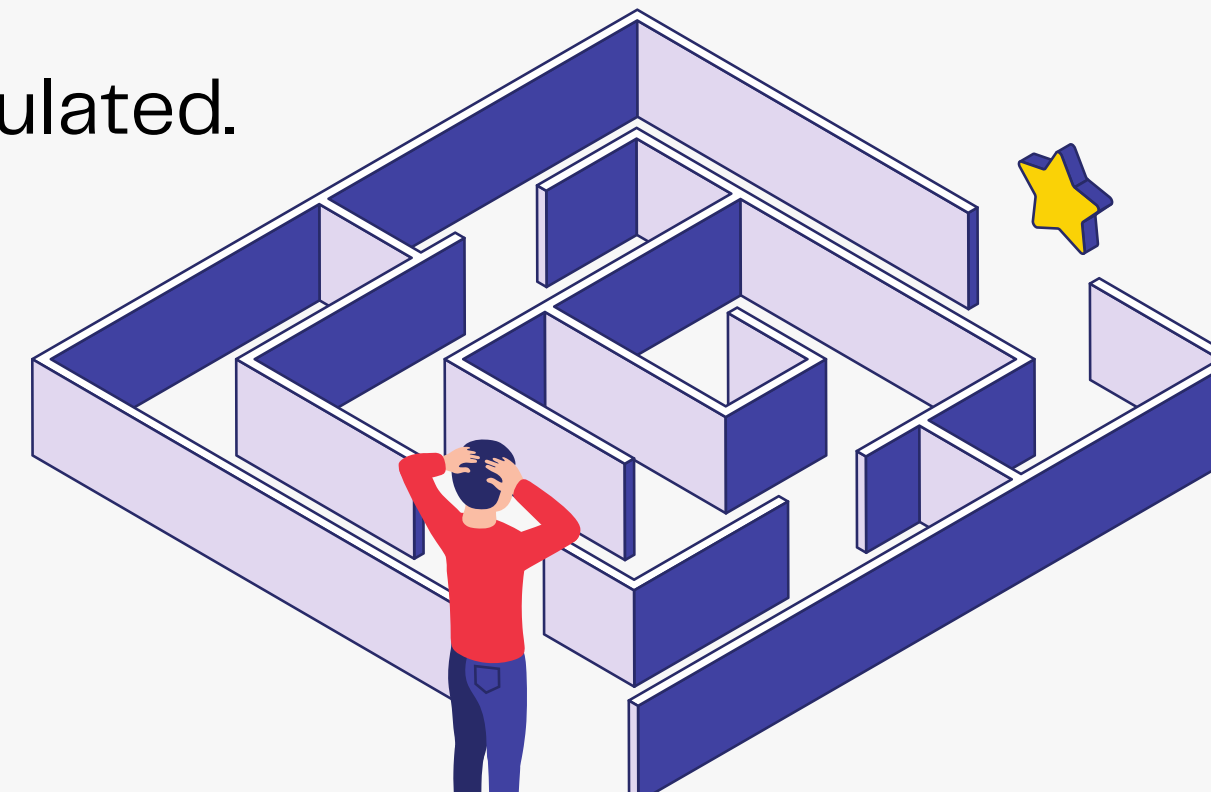
Workers that have stopped looking for employment.

## Issues with race, age, and gender information

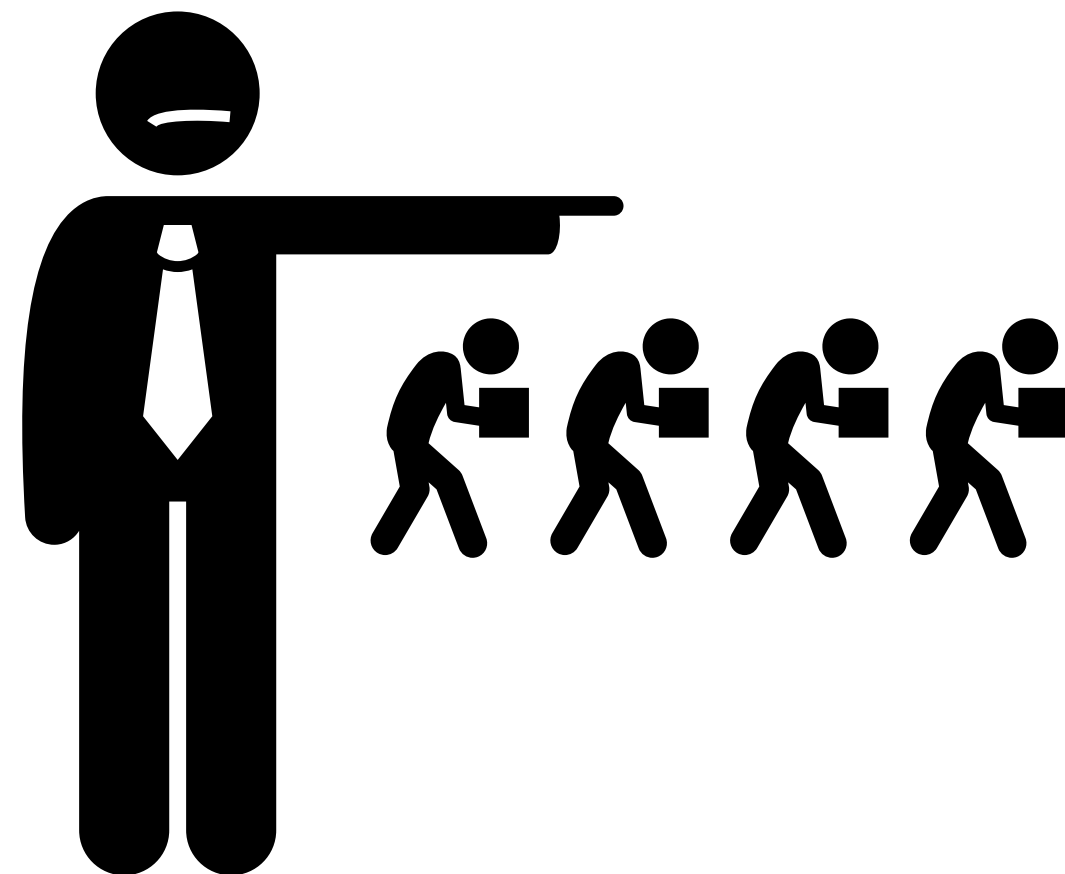
Race, age, and gender gaps in unemployment are not typically calculated.

## Informal Jobs

People employed as unregistered workers or illegal jobs.



# Causes of Unemployment



# Types of Unemployment

## Cyclical (Demand-Deficient)

Unemployment occurs due to a recession or a reduction in aggregate demand.

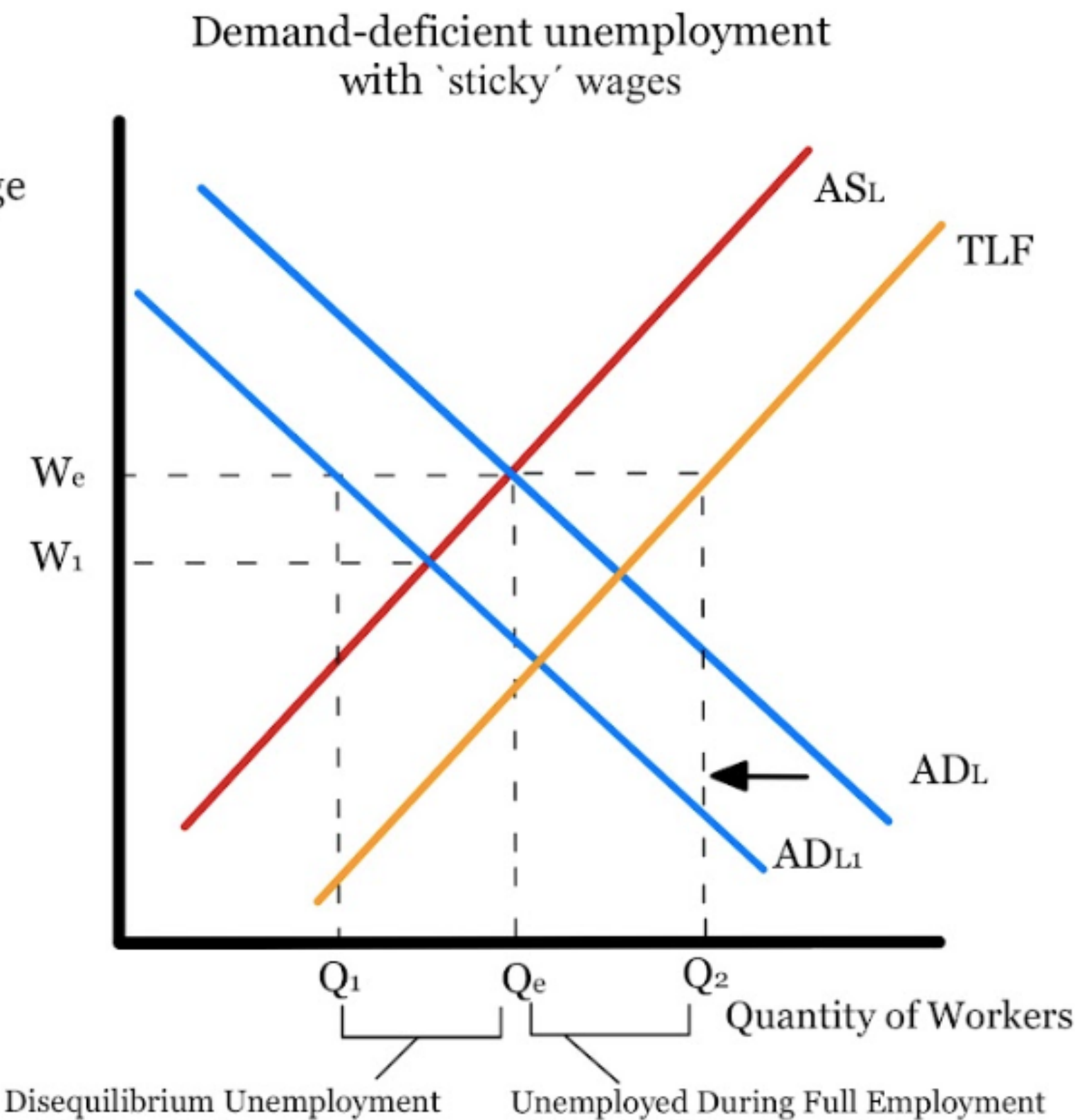
Think: **Cyclical** = Downturn in the Business **Cycle**



### Graph Note

When drawing cyclical unemployment, use  $AS_L$  and  $AD_L$  as cyclical employment affects all sectors in the economy.

# Demand Deficient Unemployment Showing Natural Rate of Unemployment



## Graph Note

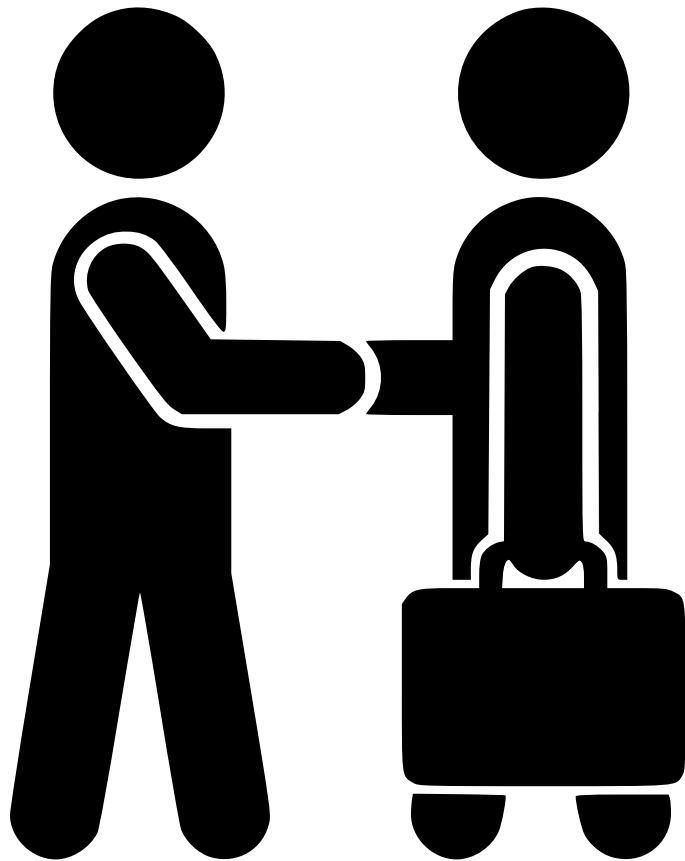
Due to sticky wages, when calculating the amount of unemployed and the Natural Rate of Unemployment, the wage levels will stay the same.

# Types of Unemployment

## Frictional

People who are between jobs or recently removed from school.

Think: **Frictional** = looking for a good **Fit**



# Types of Unemployment

## Seasonal

Occurs when specific jobs are only offered periodically during certain times in the year.

Think: **Seasonal = Santa**

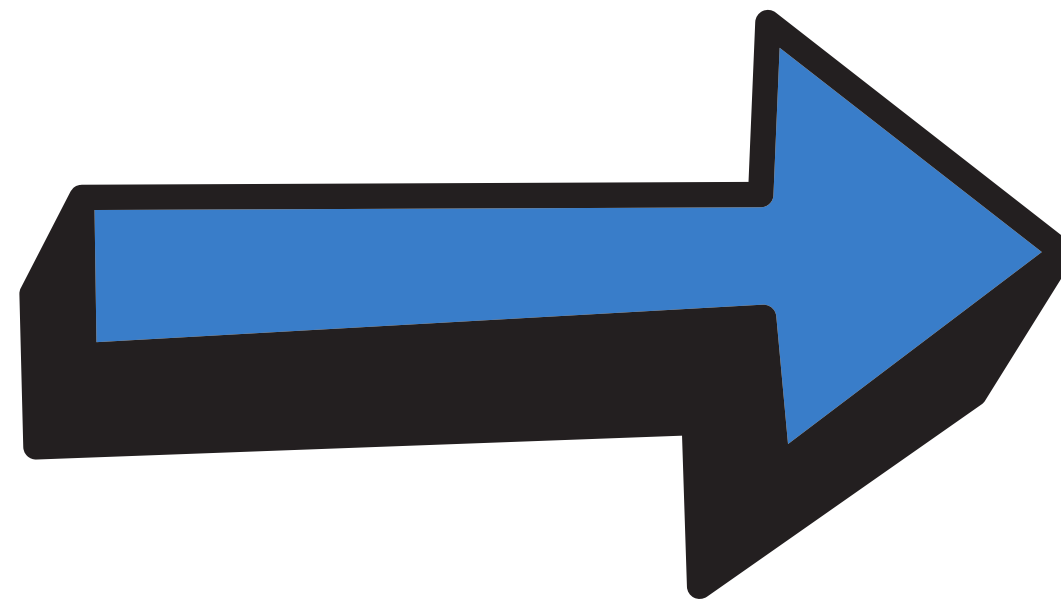


# Types of Unemployment

## Structural

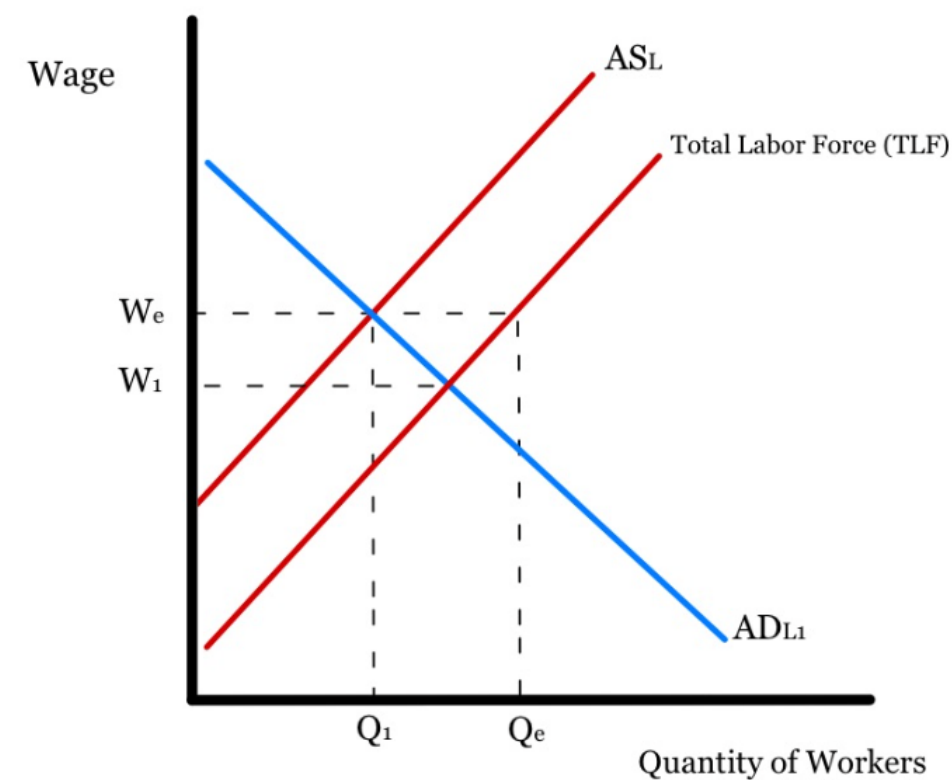
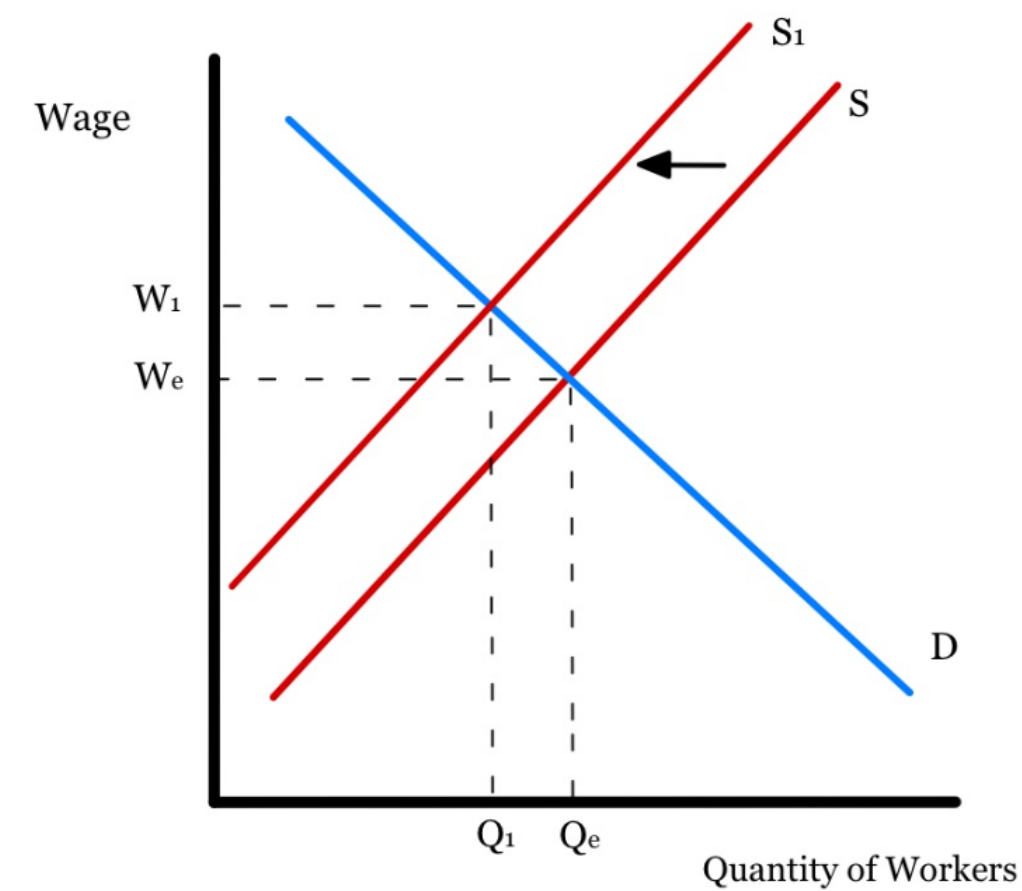
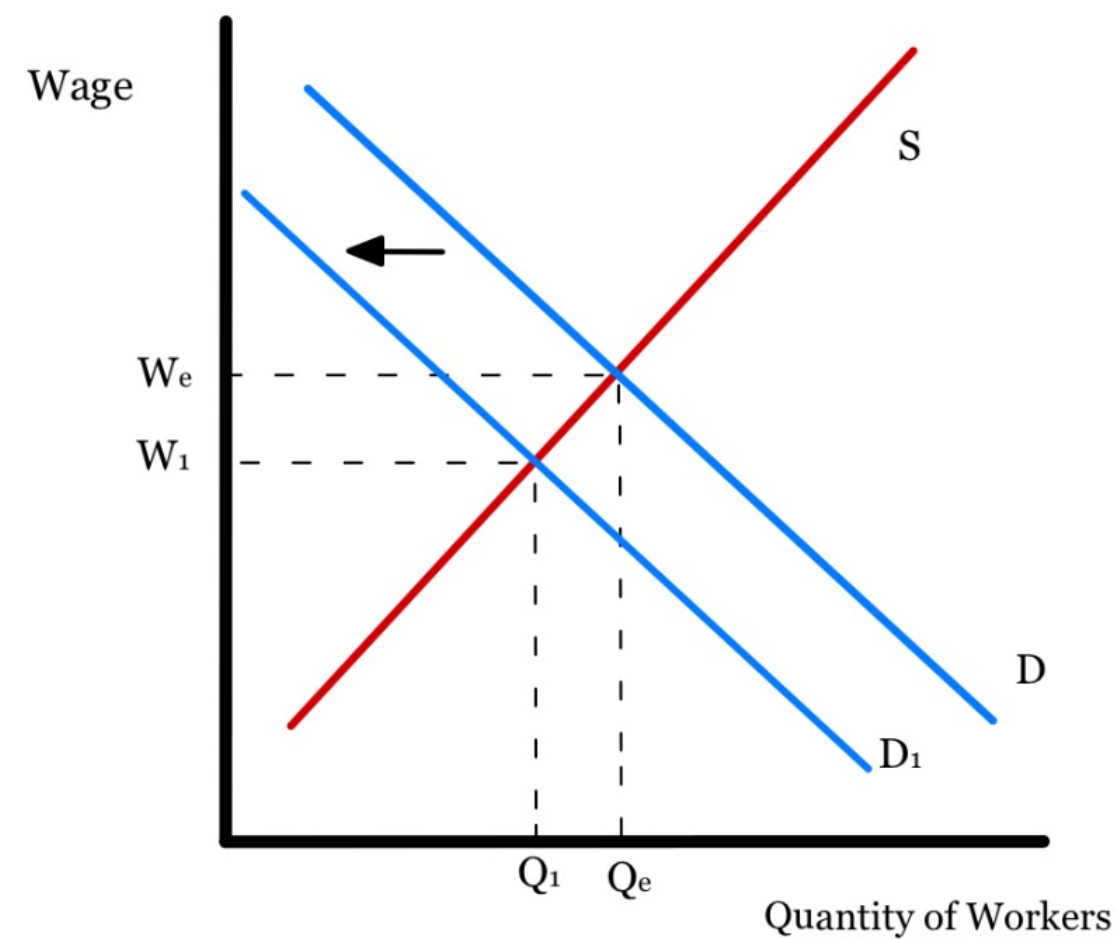
Occurs when there is a change in demand for particular skills in the labor market such as technological changes, geographical changes, or changes in patterns of demand for particular skills.

Think: **Structural** = Lack of the correct **Skills**



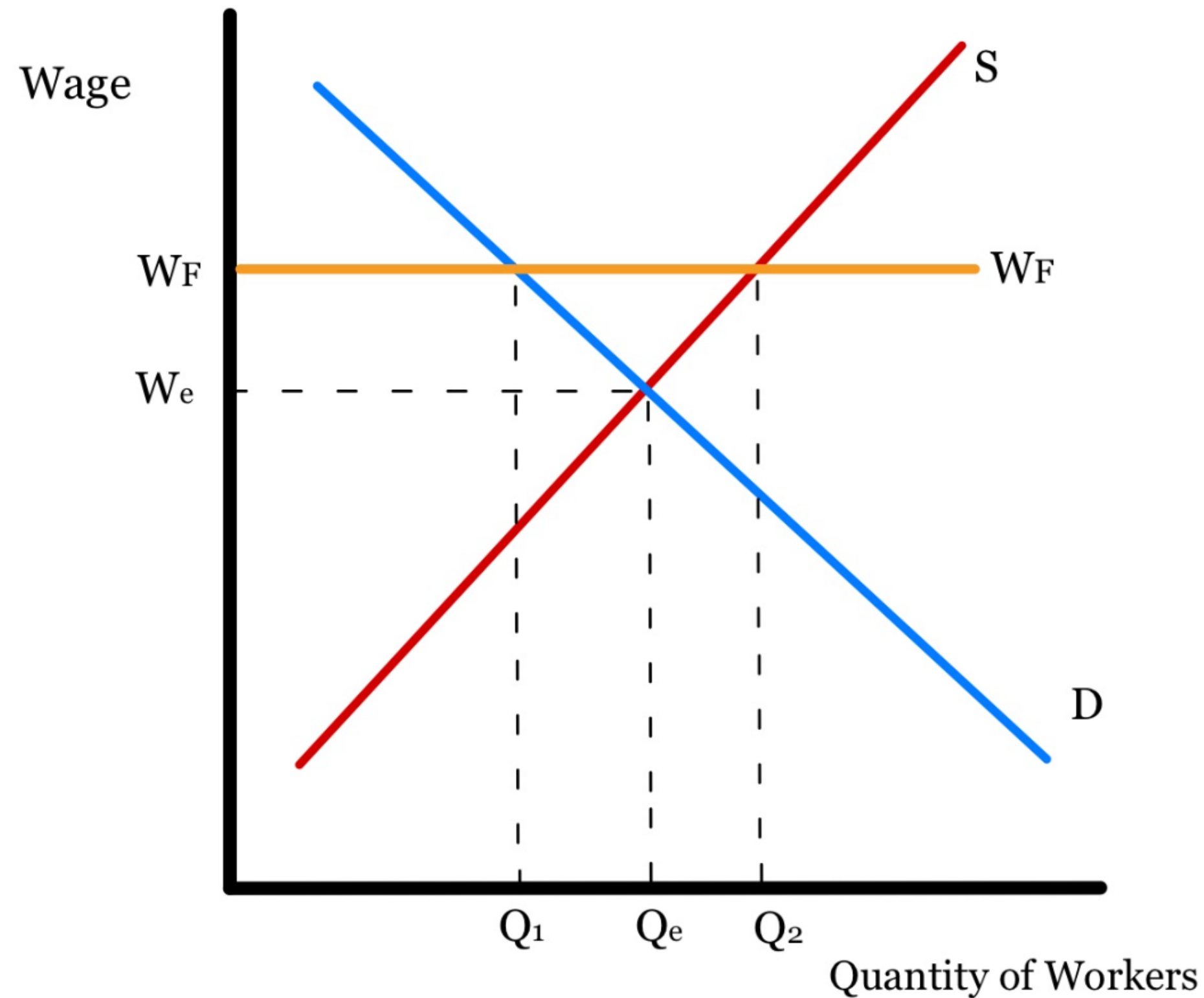


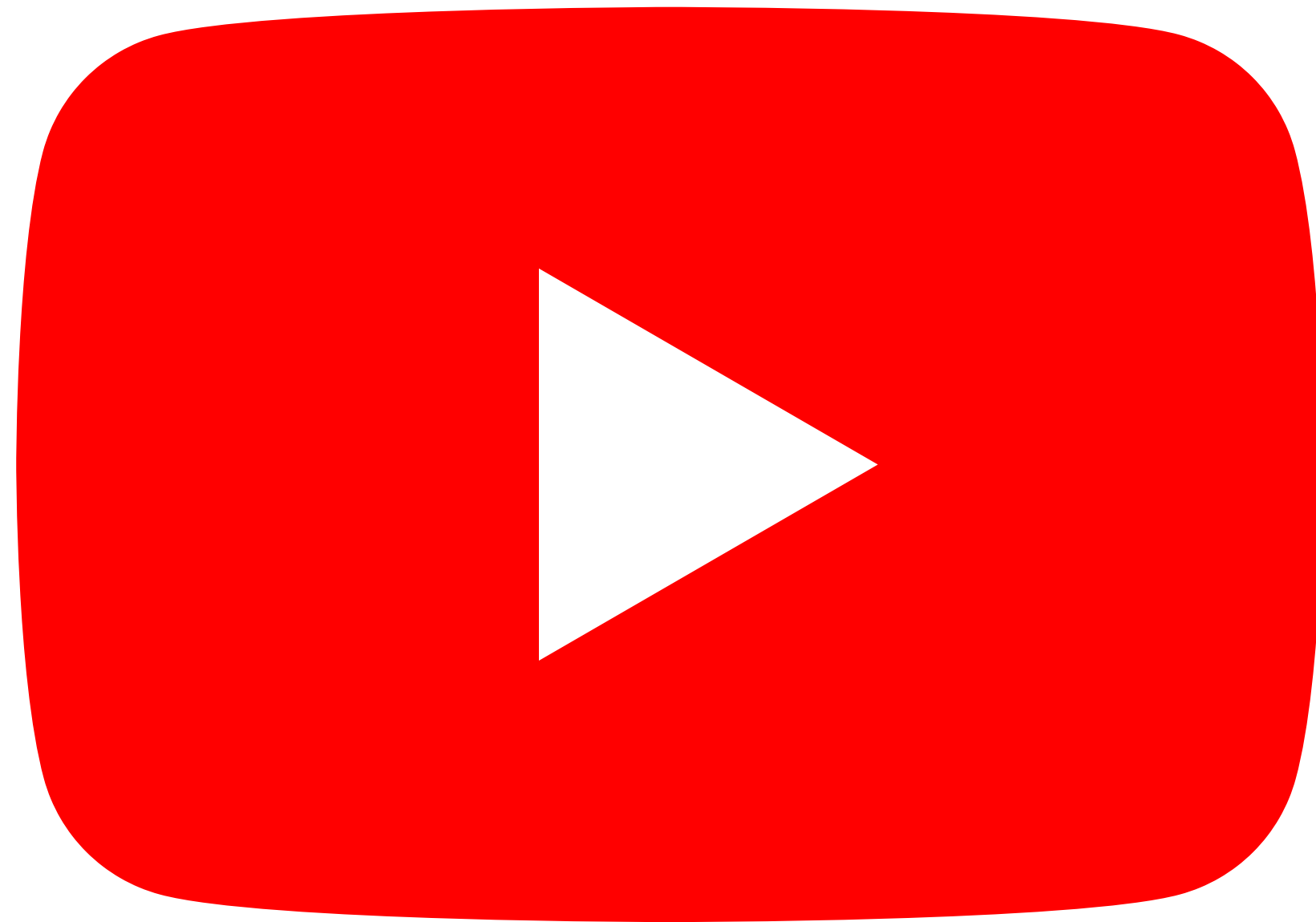
Any decrease of S or D results in inefficiency in the economy.



# Effects of a Minimum Wage (Wage Floor)

## Wage Floor





Types of Unemployment - **Course Hero**

# Case Study and TOK Connection

[Article Button](#)

Are robots taking over jobs? What is the impact on unemployment?

What skills will be required for future workers?

Will robots eventually be able to do everything human workers can?



# Definition

## **Natural Rate of Unemployment (Full Employment)**

Percentage of people structurally, frictionally, and seasonally unemployed.



There will always be changes in skills desired by businesses, people switching careers, and seasonal jobs.

This is why no economy strives for no unemployment but rather a low rate (4–6 percent typically).

# Costs of Unemployment



# Costs of Unemployment

## Economic Costs

- **Lost of GDP**
- **Loss of Tax Revenue**
- **Increased Unemployment**

### Benefit Cost

- **Lost of Income for Individuals**
- **Greater Income Inequality**

## Personal Costs

- **Increased Debt (e.g. Credit Card)**
- **Increased stress, anxiety, and depression**



## Social Costs

- **Increased Crime Rate**
- **Loss of Access to Healthcare**

# Solutions to Unemployment





# Brainstorm solutions to each type of unemployment.



# Solutions to Unemployment

**How to fix ...**

## **Cyclical Unemployment**

The economy needs to increase AD to combat the recession.

## **Structural Unemployment**

The economy needs to implement policies aimed at increasing education and flexibility in the labor market.

## **General Unemployment**

An effective welfare system allows those who are unemployed to stay out of poverty and find new employment.



# Practice Question



# Paper 1

14N.1.HL.TZ0.3a

- (a) Distinguish between structural and demand-deficient unemployment. *[10 marks]*
- (b) Discuss the view that the problem of unemployment can be reduced through the use of supply-side policies. *[15 marks]*



# Mark Scheme

**(a) Distinguish between structural and demand-deficient unemployment. [10 marks]**

Answers may include:

- definitions of structural and demand-deficient unemployment
- diagram(s) to illustrate the different types of unemployment
- an explanation of structural unemployment and demand-deficient unemployment drawing out the key differences
- examples of structural unemployment *eg* declining industry and demand-deficient unemployment in a recession.

# Mark Scheme

- (b) Discuss the view that the problem of unemployment can be reduced through the use of supply-side policies. *[15 marks]*

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers may include:

- definitions of supply-side policies and unemployment
- diagrams to show use of supply-side and other policies
- explanations of how supply-side policies (market-based and interventionist) might lower unemployment; explanation of how demand-side policies (fiscal and monetary) might lower unemployment
- examples of supply-side and other policies used to reduce unemployment
- synthesis or evaluation (discuss).

Discussion may include: a consideration of the positive and negative consequences of different policies.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

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