

● 13 Defining Unemployment

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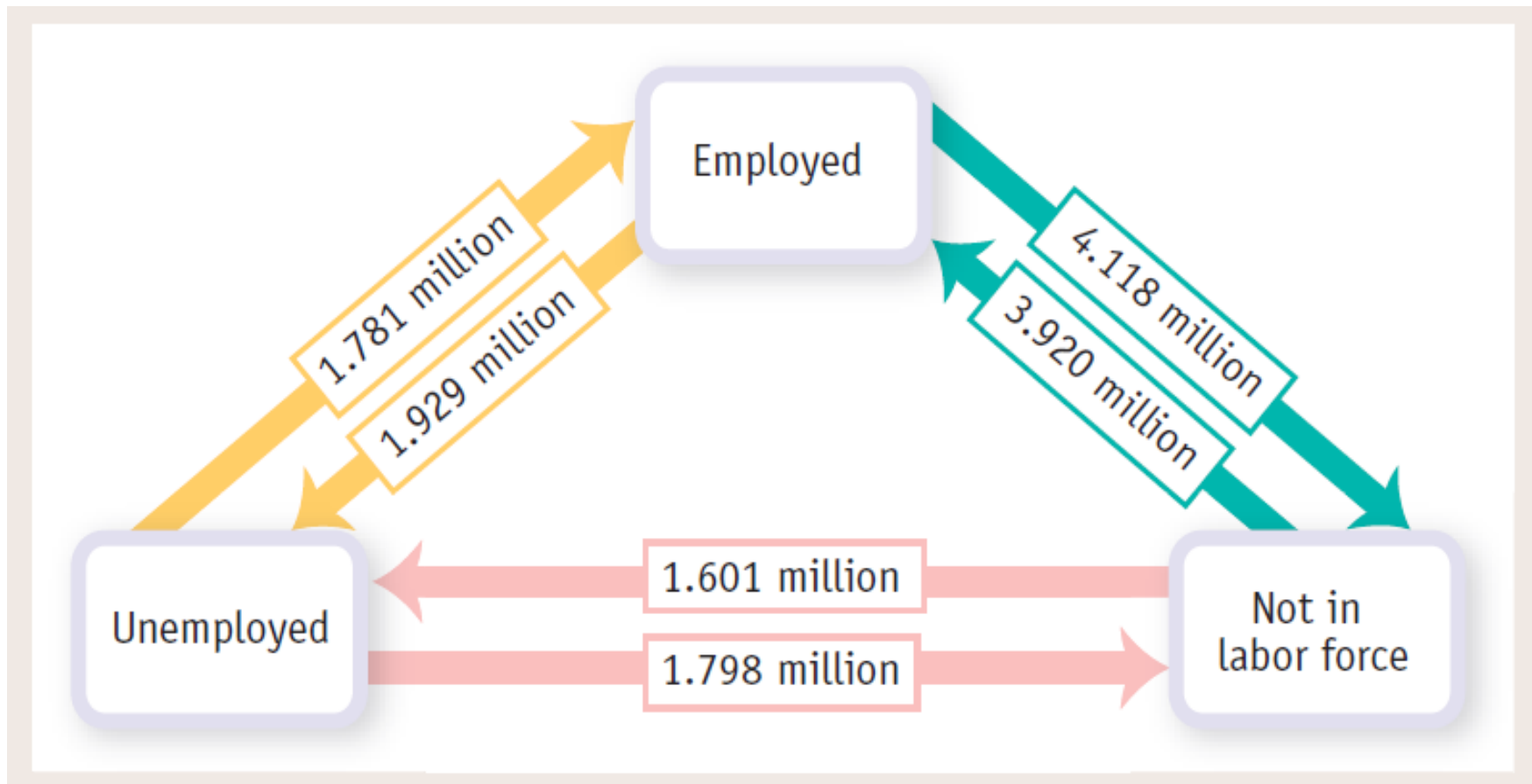


The Natural Rate of Unemployment

- Workers who spend time looking for employment are engaged in **job search**.
- **Frictional unemployment** is unemployment due to the time workers spend in job search.
- The **natural rate of unemployment** is often estimated around 5-6%.

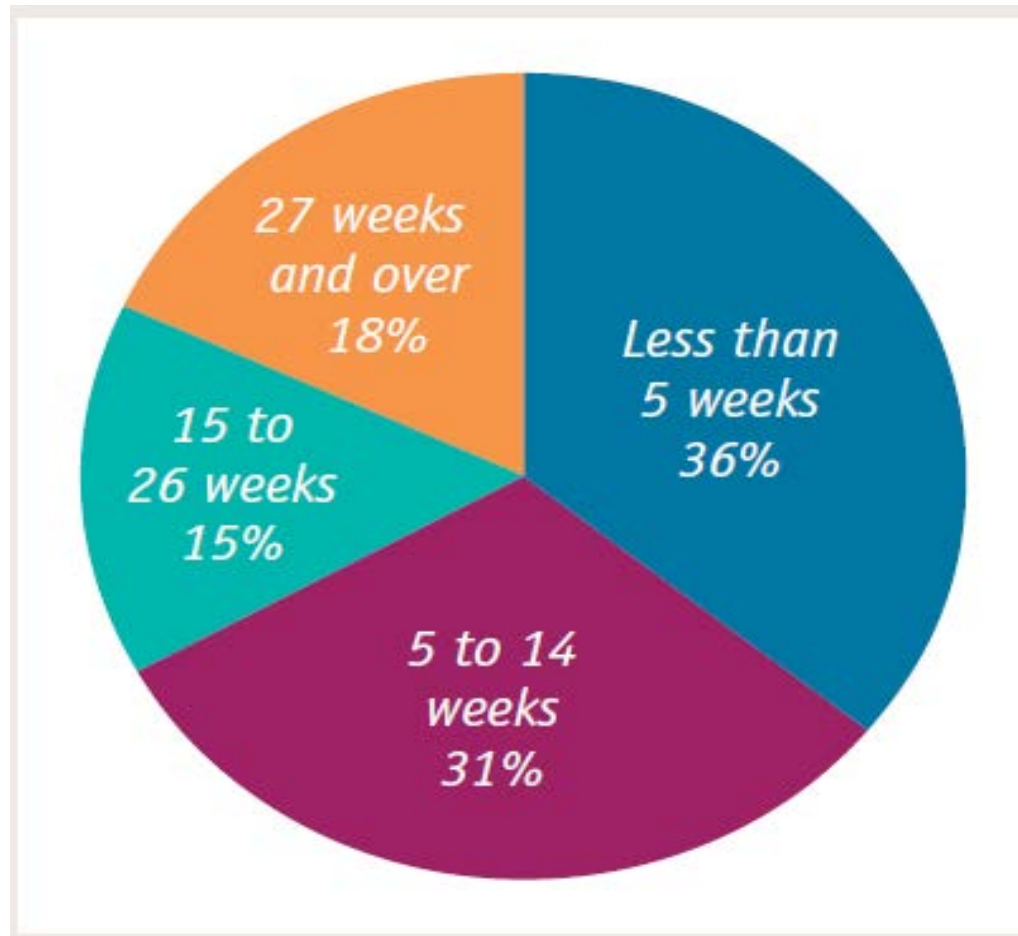
The Nature of Unemployment

Labor Market Flows in an Average Month in 2007



The Nature of Unemployment

Distribution of the Unemployed by Duration of Unemployment, 2007

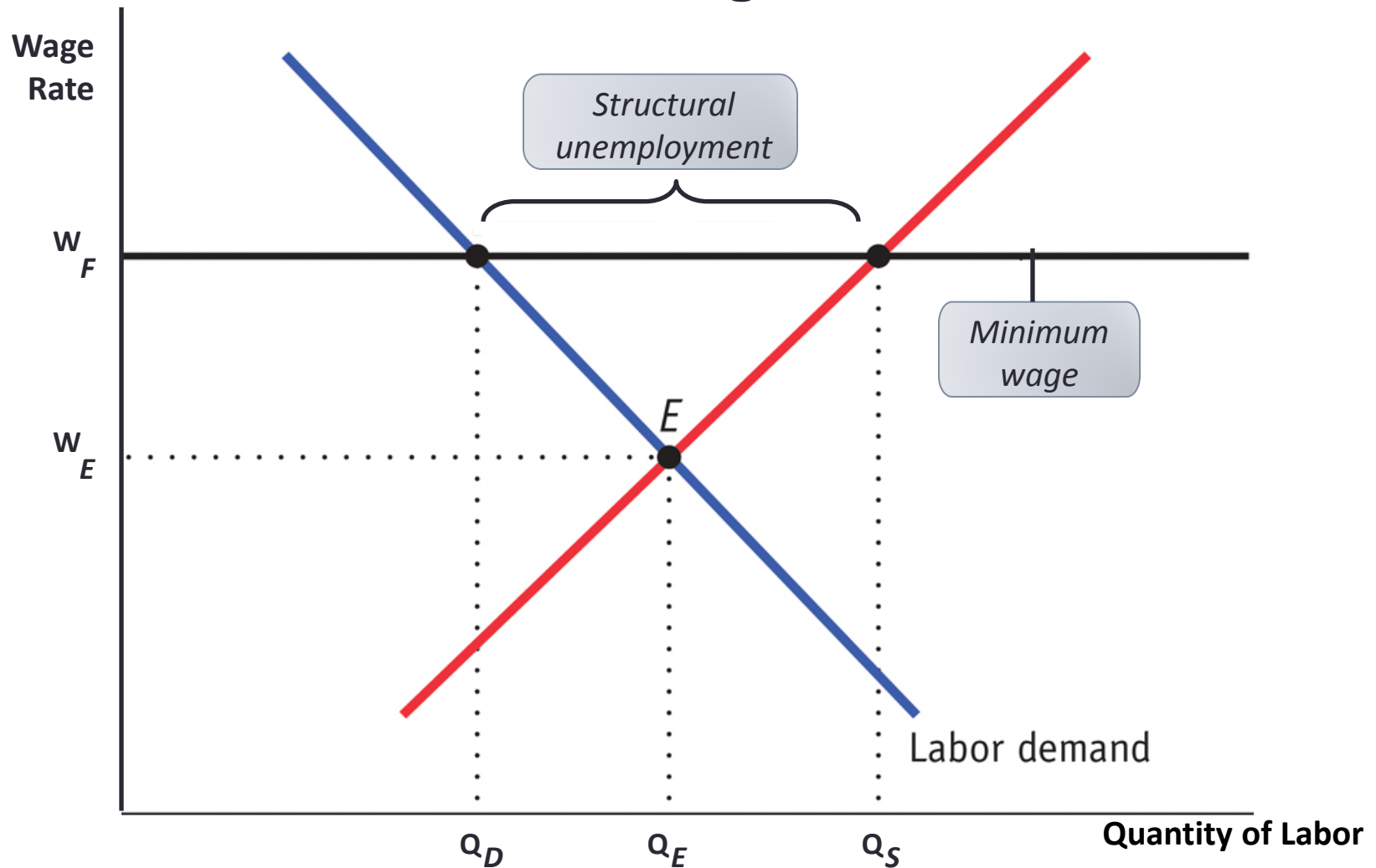


The Nature of Unemployment

- **Structural unemployment** occurs when there are more people seeking jobs in a labor market than there are jobs available at the current wage.

Structural Unemployment

The Effect of a Minimum Wage on the Labor Market



Causes of Structural Unemployment

- **Minimum wages:** a government-mandated floor on the price of labor. In the U.S., the national minimum wage is \$7.25 an hour.
- **Unions:** by bargaining for all a firm's workers collectively (collective bargaining), unions can often win higher wages from employers than the market would have otherwise provided when workers bargained individually.

Causes of Structural Unemployment (cont.)

- **Efficiency wages:** wages that employers set above the equilibrium wage rate as an incentive for better performance.
- **Side effects of government policies:** public policies designed to help workers who lose their jobs; these policies can lead to structural unemployment as an unintended side effect.
- **Mismatches between employees and employers:** caused by the time it takes for workers and firms to adjust to shifts in the economy; includes skills mismatch and geographic mismatch.

The Natural Rate of Unemployment

- The **natural rate of unemployment** is the normal unemployment rate around which the actual unemployment rate fluctuates.
- The natural rate of unemployment is the unemployment rate that arises from the effects of frictional plus structural unemployment.
- **Cyclical unemployment** is a deviation in the actual rate of unemployment from the natural rate.

Types of Unemployment

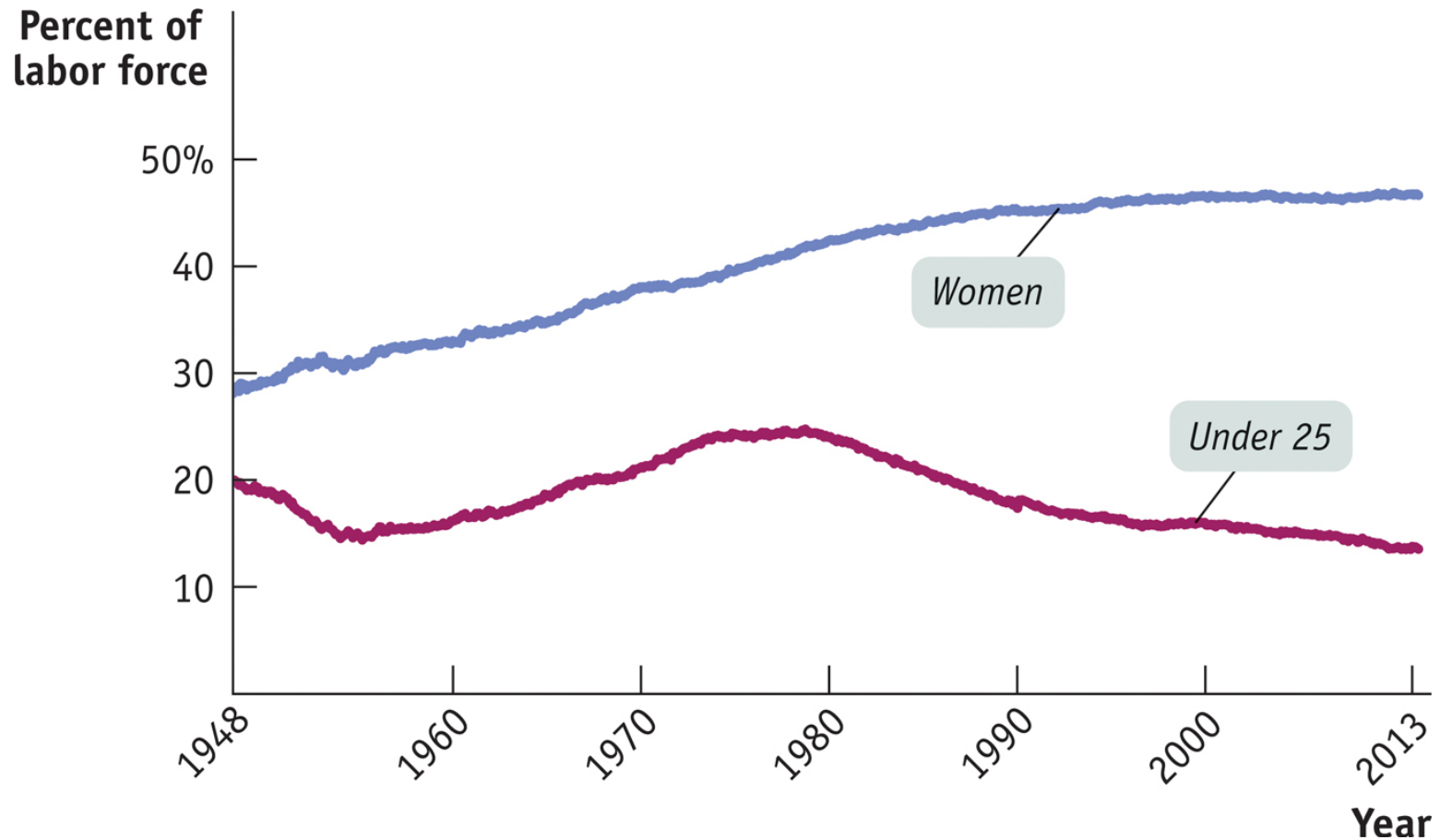
- Natural unemployment =
Frictional unemployment +
Structural unemployment
- Actual unemployment =
Natural unemployment +
Cyclical unemployment

Changes in the Natural Rate of Unemployment

- Estimates of the natural rate of unemployment show that the U.S. natural rate rises and falls over time.
- Factors that affect the natural rate of unemployment:
 - Changes in labor force characteristics
 - Changes in labor market institutions
 - Changes in government policy

Changes in the Natural Rate of Unemployment

The Changing Makeup of the U.S. Labor Force, 1948-2013



Economics in Action

Natural Unemployment Around the OECD

