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Principles of  
**Economics**  
Sixth Edition



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**Unemployment**

Premium  
PowerPoint  
Slides by  
Ron Cronovich

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*In this chapter,  
look for the answers to these questions:*

- How is unemployment measured?
- What is the “natural rate of unemployment”?
- Why are there always some people unemployed?
- How is unemployment affected by unions and minimum wage laws?
- What is the theory of efficiency wages, and how does it help explain unemployment?

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**Labor Force Statistics**

- § Produced by Bureau of Labor Statistics (BLS), in the U.S. Dept. of Labor
- § Based on regular survey of 60,000 households
- § Based on “adult population” (16 yrs or older)

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## Labor Force Statistics

BLS divides population into 3 groups:

§ **Employed:**

§ **Unemployed:**

§ **Not in the labor force:**

The **labor force**

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## Labor Force Statistics

**Unemployment rate** ("u-rate"):

**Labor force participation rate:**

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### ACTIVE LEARNING 1

#### Calculate labor force statistics

Compute the labor force, u-rate, adult population, and labor force participation rate using this data:

Adult population of the U.S. by group, April 2011	
# of employed	139.7 million
# of unemployed	13.7 million
not in labor force	85.7 million

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ACTIVE LEARNING 1  
Answers

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Labor Force Statistics for Different Groups

- § The BLS publishes these statistics for demographic groups within the population.
- § These data reveal widely different labor market experiences for different groups.

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Labor Force Statistics for Whites & Blacks,  
April 2011

Adults (20 yrs & older)		
	<i>u-rate</i>	<i>LF part. rate</i>
White, male	7.9%	73.9%
White, female	7.0	59.8
Black, male	17.0	68.6
Black, female	13.4	62.0

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**Labor Force Statistics for Whites & Blacks,  
April 2011**

<b>Teens (16–19 yrs)</b>		
	<i>u-rate</i>	<i>LF part. rate</i>
White	22.3%	36.2%
Black	41.6%	26.2%

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**Labor Force Statistics for Other Groups,  
April 2011**

<b>All ages</b>		
	<i>u-rate</i>	<i>LF part. rate</i>
Asian	6.4%	64.1%
Hispanic	11.8	66.6

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**Labor Force Statistics by Education Level,  
April 2011**

<b>Adults (25 yrs &amp; older)</b>		
	<i>u-rate</i>	<i>LF part. rate</i>
less than h.s.	14.6%	45.5%
h.s. diploma	9.7	60.4
some college or assoc degree	7.5	69.7
bachelor's degree or more	4.5	77.0

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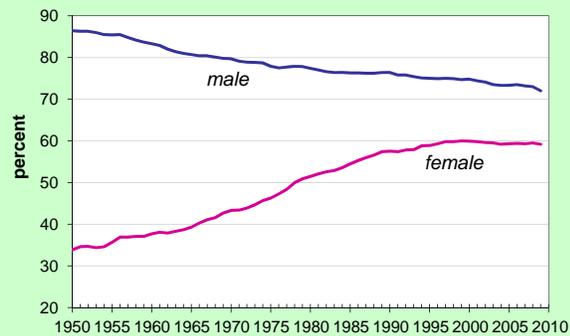
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### LF Participation Rates by Sex, 1950–2009



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#### ACTIVE LEARNING 2

##### Limitations of the u-rate

In each of the following, what happens to the u-rate? Does the u-rate give an accurate impression of what's happening in the labor market?

- A.** Sue lost her job and begins looking for a new one.
- B.** Jon, a steelworker who has been out of work since his mill closed last year, becomes discouraged and gives up looking for work.
- C.** Sam, the sole earner in his family of 5, just lost his \$80,000 job as a research scientist. Immediately, he takes a part-time job at McDonald's until he can find another job in his field.

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#### ACTIVE LEARNING 2

##### Answers

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### What Does the U-Rate Really Measure?

§ The u-rate is not a perfect indicator of joblessness or the health of the labor market:

§ Despite these issues, the u-rate is still a very useful barometer of the labor market & economy.

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### The Duration of Unemployment

§ Typically 1/3 of the unemployed have been unemployed under 5 weeks, 2/3 have been unemployed under 14 weeks.

§ Only 20% have been unemployed over 6 months.

§ The small group of long-term unemployed persons has fairly little turnover, so it accounts for most of the unemployment observed over time.

Knowing these facts helps policymakers design better policies to help the unemployed.

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### Cyclical Unemployment vs. the Natural Rate

There's always some unemployment, though the u-rate fluctuates from year to year.

**Natural rate of unemployment**

**Cyclical unemployment**

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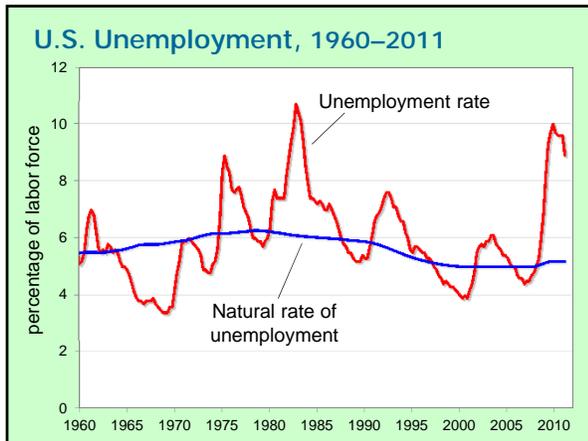
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### Explaining the Natural Rate: An Overview

Even when the economy is doing well, there is always some unemployment, including:

**Frictional unemployment**

**Structural unemployment**

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### Job Search

- § Workers have different tastes & skills, and jobs have different requirements.
- § **Job search**
- § **Sectoral shifts**
- § Such shifts displace some workers, who must search for new jobs appropriate for their skills & tastes.
- § The economy is always changing, so

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## Public Policy and Job Search

§ Govt employment agencies

§ Public training programs

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## Unemployment Insurance

§ **Unemployment insurance** (UI):

§ UI

To see why, recall one of the  
Ten Principles of Economics:

***People respond to incentives.***

UI benefits end when a worker takes a job,

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## Unemployment Insurance

Benefits of UI:

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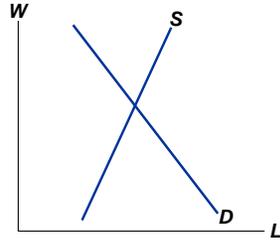
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## Explaining Structural Unemployment

Structural unemployment occurs when



There are three reasons for this...

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## 1. Minimum-Wage Laws

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§ But this group is a small part of the labor force,

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## 2. Unions

§ **Union:** a worker association that bargains with employers over wages, benefits, and working conditions

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§ The typical union worker earns 20% higher wages and gets more benefits than a nonunion worker for the same type of work.

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## 2. Unions

§ When unions raise the wage above eq'm, quantity of labor demanded falls and unemployment results.

§ "Insiders"

§ "Outsiders"

§ Some outsiders go to non-unionized labor markets,

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## 2. Unions

Are unions good or bad? Economists disagree.

§ Critics:  
Unions are cartels. They raise wages above eq'm, which causes unemployment and/or depresses wages in non-union labor markets.

§ Advocates:

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## 3. Efficiency Wages

§ The theory of **efficiency wages**:

§ Different versions of efficiency wage theory suggest different reasons why firms pay high wages.

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### 3. Efficiency Wages

Four reasons why firms might pay efficiency wages:

1. In less developed countries, poor nutrition is a common problem.

#### 2. Worker turnover

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### 3. Efficiency Wages

Four reasons why firms might pay efficiency wages:

3. **Worker quality**  
Offering higher wages

4. **Worker effort**  
Workers can work hard or shirk. Shirkers are fired if caught. Is being fired a good deterrent?

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#### ACTIVE LEARNING 3

#### Applying the concepts

Which of the following would be most likely to reduce frictional unemployment?

- A. The govt eliminates the minimum wage.
- B. The govt increases unemployment insurance benefits.
- C. A new law bans labor unions.
- D. More workers post their resumes at Monster.com, and more employers use Monster.com to find suitable workers to hire.
- E. Sectoral shifts become more frequent.

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## Explaining the Natural Rate of Unemployment: A Summary

The natural rate of unemployment consists of

§ *frictional unemployment*

§ *structural unemployment*

In later chapters, we will learn about *cyclical unemployment*, the short-term fluctuations in unemployment associated with business cycles.

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