ECONOMICS 116a

UNEMPLOYMENT
Unemployment rate, 1989-2001 (seasonally adjusted)

Source: Bureau of Labor Statistics
Current Population Survey

Note: Shaded area represents recession. Break in series in January 1994 is due to the redesign of the survey.

Source: http://stats.bls.gov/wh/cpsbref2.htm
The unemployment rate over the longer run
The Federal Open Market Committee decided today to lower its target for the federal funds rate by 50 basis points to 2 percent. In a related action, the Board of Governors approved a 50 basis point reduction in the discount rate to 1-1/2 percent.

Heightened uncertainty and concerns about a deterioration in business conditions both here and abroad are damping economic activity.

For the foreseeable future, then, the Committee continues to believe that, against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the risks are weighted mainly toward conditions that may generate economic weakness.
THE ECONOMICS OF UNEMPLOYMENT

Definitions:

• **Employed:** working for pay or absent from job for cause

• **Unemployed:** not employed, but actively looking for work

• **Not in labor force:** school, ill, retired, or discouraged worker
Unemployment rate = blue/(red + blue) = u/(u+e)
Labor force participation rate = (red + blue) / total
= (u + e)/pop
Notes on definitions

Unemployment: not working, but
- actively looking for work
- on layoff

Not in labor force: school, ill, retired, housework, discouraged

U ≠ not working
U ≠ not having a job

- Examples: students working, budding novelist, laid off airline pilot
Q. How are data on unemployment gathered?

A. Through *sample survey* of the population.
• **Techniques of sample survey**
  • Probability sampling
  • Controlled questions and answers
  • Statistical computer analysis
  • Important social science discipline!

• **Important examples**
  • Election polls
  • Market research
  • Current Population Survey (for unemployment and population data)
  • Major controversy concerning use of sampling for the 2000 Census
Discuss the example of the Current Population Survey

- Source of data for monthly unemployment, employment, labor force data.
- Overview of the survey
- Questions and answers from the survey

For further information, see http://www.bls.census.gov/cps/cpsbasic.htm
Keynesian Theory of Unemployment

- Voluntary (market clearing) v involuntary (disequilibrium) unemployment

- Involuntary and cyclical unemployment arise because of wage stickiness

- Reasons for Wage Stickiness:
  - Absence of auction market
  - Heterogeneity and absence of grading labor
  - Premium on long-term relationship rather than "spot" contracts
  - Laws, institutions, morale
Result of wage stickiness

- Wages react slowly to shocks…
  … while quantities (employment) react more quickly than wages.
In class (using transparencies)

1. Auction market v. sticky labor market
   - Lead to classical v. Keynesian situations

2. What happens in sticky-wage labor markets in:
   - boomy conditions (1990s)?
   - depressed conditions and downturns (today)?
Median tenure in job (years) by age

- 25-34 yrs
- 35-44 yrs
- 45-54 yrs
- 55-64 yrs
Recessions increase long-term unemployment
Recessions increase unemployment duration

- Unemployment rate
- Duration (weeks/2)
The college-high school skill premium

[ratio of earnings of college to high-school graduates. Indicates rise in skill premium]