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?
**Labor Force Statistics**

BLS divides population into 3 groups:

- **Employed:**
- **Unemployed:**
- **Not in the labor force:** everyone else

The labor force

**Labor Force Statistics**

Unemployment rate ("u-rate"): 

Labor force participation rate:

**ACTIVE LEARNING 1**

**Calculate labor force statistics**

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

<table>
<thead>
<tr>
<th>Adult population of the U.S. by group, June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td># of employed</td>
</tr>
<tr>
<td># of unemployed</td>
</tr>
<tr>
<td>not in labor force</td>
</tr>
</tbody>
</table>
Labor Market 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.

<table>
<thead>
<tr>
<th>Adults (20 yrs &amp; older)</th>
<th>u-rate</th>
<th>LF part. rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>White, male</td>
<td>4.5%</td>
<td>76.1%</td>
</tr>
<tr>
<td>White, female</td>
<td>4.2</td>
<td>60.4</td>
</tr>
<tr>
<td>Black, male</td>
<td>9.3</td>
<td>71.5</td>
</tr>
<tr>
<td>Black, female</td>
<td>7.4</td>
<td>64.3</td>
</tr>
</tbody>
</table>
### Labor Market Statistics for Whites & Blacks, June 2008

<table>
<thead>
<tr>
<th>Teens (16-19 yrs)</th>
<th>u-rate</th>
<th>LF part. rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>16.6</td>
<td>43.9</td>
</tr>
<tr>
<td>Black</td>
<td>29.6</td>
<td>27.9</td>
</tr>
</tbody>
</table>

### Labor Market Statistics for Other Groups, June 2008

<table>
<thead>
<tr>
<th>All ages</th>
<th>u-rate</th>
<th>LF part. rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian</td>
<td>4.5</td>
<td>67.4</td>
</tr>
<tr>
<td>Hispanic</td>
<td>7.7</td>
<td>69.0</td>
</tr>
</tbody>
</table>

### Labor Market Statistics by Education Level, June 2008

<table>
<thead>
<tr>
<th>Adults (25 yrs &amp; older)</th>
<th>u-rate</th>
<th>LF part. rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than h.s.</td>
<td>8.7%</td>
<td>45.9%</td>
</tr>
<tr>
<td>h.s. diploma</td>
<td>5.1</td>
<td>62.8</td>
</tr>
<tr>
<td>some college or assoc degree</td>
<td>4.2</td>
<td>71.9</td>
</tr>
<tr>
<td>bachelor's degree or more</td>
<td>2.3</td>
<td>78.1</td>
</tr>
</tbody>
</table>
**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.

**ACTIVE LEARNING 2**

**Answers**
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.

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.

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
Explaining the Natural Rate: An Overview

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

- **Frictional unemployment**

- **Structural unemployment**

---

**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
Public Policy and Job Search

- Govt employment agencies
- Public training programs

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, so

Unemployment Insurance

Benefits of UI:
Explaining Structural Unemployment

Structural unemployment occurs when

There are three reasons for this…

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

2. Unions

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

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

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:

3. Efficiency Wages

- The theory of efficiency wages:

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

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?

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?

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.
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.