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Employment and Unemployment

* Labour productivity - $\frac{\text{Number of units produced}}{\text{Total } \cancel{\text{working population}} \text{ labour force}}$

* Working population

→ The working population (WP) is defined as the number of people of working age, often taken to be those aged between 16 and 65.

→ The non-working population (NWP) includes all the people which are not part of the working population

→ The dependency ratio (DR) is equal to 100 times the ratio of the NWP (that is the dependent ~~for~~ part of the population) to the WP (i.e. the productive part of the population).

$$DR = \frac{NWP}{WP} \times 100$$

$$\text{Dependency ratio} = \frac{\text{Non-working population}}{\text{Working population}} \times 100$$

* Employment (E) is the total number of people who are currently holding a job in the economy, either full-time or part-time (i.e. at least 1 hour per week

→ Unemployment (U) is the total number of people who are jobless, looking for jobs, and available for work.

→ The Labour force (LF) (or active population) includes all the employed and all the unemployed

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→ The Inactive Working Population (IWP) includes all the people which are part of the WP but which are neither E nor U so they are not part of the LF.

Inactive Working Population = Working Population - Labour Force

→ The Labour Force Participation Rate (LFP Rate) is defined as the percentage of the WP that is in the LF.

$$\text{LFP Rate} = \frac{LF}{WP} \times 100$$

→ $$\text{Unemployment rate} = \frac{U}{LF} \times 100$$

→ $$\text{Employment Rate} = \frac{E}{LF} \times 100$$

* Claimant Count

→ The claimant count of unemployment is the number of people registered as unemployed and claiming unemployment benefits - the Jobseeker's Allowance (JSA) - each month.

Advantages:-

→ Relatively cheap and quick to calculate.
→ Not subject to sampling errors.

Disadvantages :-

→ It may include some people who are not really unemployed.
→ It may omit some people who are genuinely unemployed.
→ It cannot be used for international comparison.

→ It is open to political manipulation.

* **The ILO Unemployment Rate**

→ It is an international standard method of calculating unemployment.

• **Advantages** :-
- Easier for international comparison.
- It is not open to political manipulation.
- The surveyed households have no incentive to misinterp information.
- It includes the unemployed people who donot claim or are not entitled the JSA.

Limitations :-

→ The data is more expensive and time consuming to collect.

→ Sampling error.

* **Types of Unemployment**

i) **Frictional Unemployment**

→ It refers to short-term (or temporary) unemployment which arises when qualified workers with transferab skills are in-between jobs.

→ There will always be frictional unemployment and it is not regarded

→ It may even be beneficial in the sense that the economy is more productive if workers take the time to find the jobs that are well matched to their skills.

2] Seasonal unemployment

→ In some industries the demand for labour is highly seasonal. Therefore workers tend to work on a seasonal basis so they are unemployed at certain times of the year.

3] Structural Unemployment

→ Over time, new technologies emerge and consumers' taste evolve so the structure of economic activity changes and jobs are constantly being created and destroyed.

→ If workers find themselves unable to transfer their skills from one industry to another, due to a lack of geographical or occupational mobility, then they become structurally unemployed.

4] Cyclical Unemployment

→ Cyclical (or demand deficient) is caused by changes in the business cycle and the aggregate demand.

5] Classical Unemployment

→ Classical (or real-wage) unemployment occurs when the labour market wage is held above its equilibrium level so there is labour surplus, which is referred to as

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* Policies to reduce Unemployment

1] Frictional - Lower unemployment benefits, redundancy pay or income tax to increase the incentives to work. Provide assistance to jobseekers for them to spend less time in between jobs.

2] Structural → Improve occupational mobility.
→ Improve geographical mobility.

3] Classical - Lower the minimum wage

4] Cyclical - Implementing expansionary demand-side policies (i.e. expansionary fiscal and monetary policies).

* Consequences of unemployment
• Economic consequences
→ Under-utilization of resources
→ Decrease in the GDP and the national income.
→ Government spending increases, so does opportunity cost.
→ Taxes increases for increased spending.
→ Fall in disposable income due to higher taxes
→ Increase in income inequality.
→ Leads to vicious cycle of poverty.
→ Fall in the standard of living.
→ Lower inflation.
→ Tax revenue may reduce due to lower income of the people

• **Social consequences**

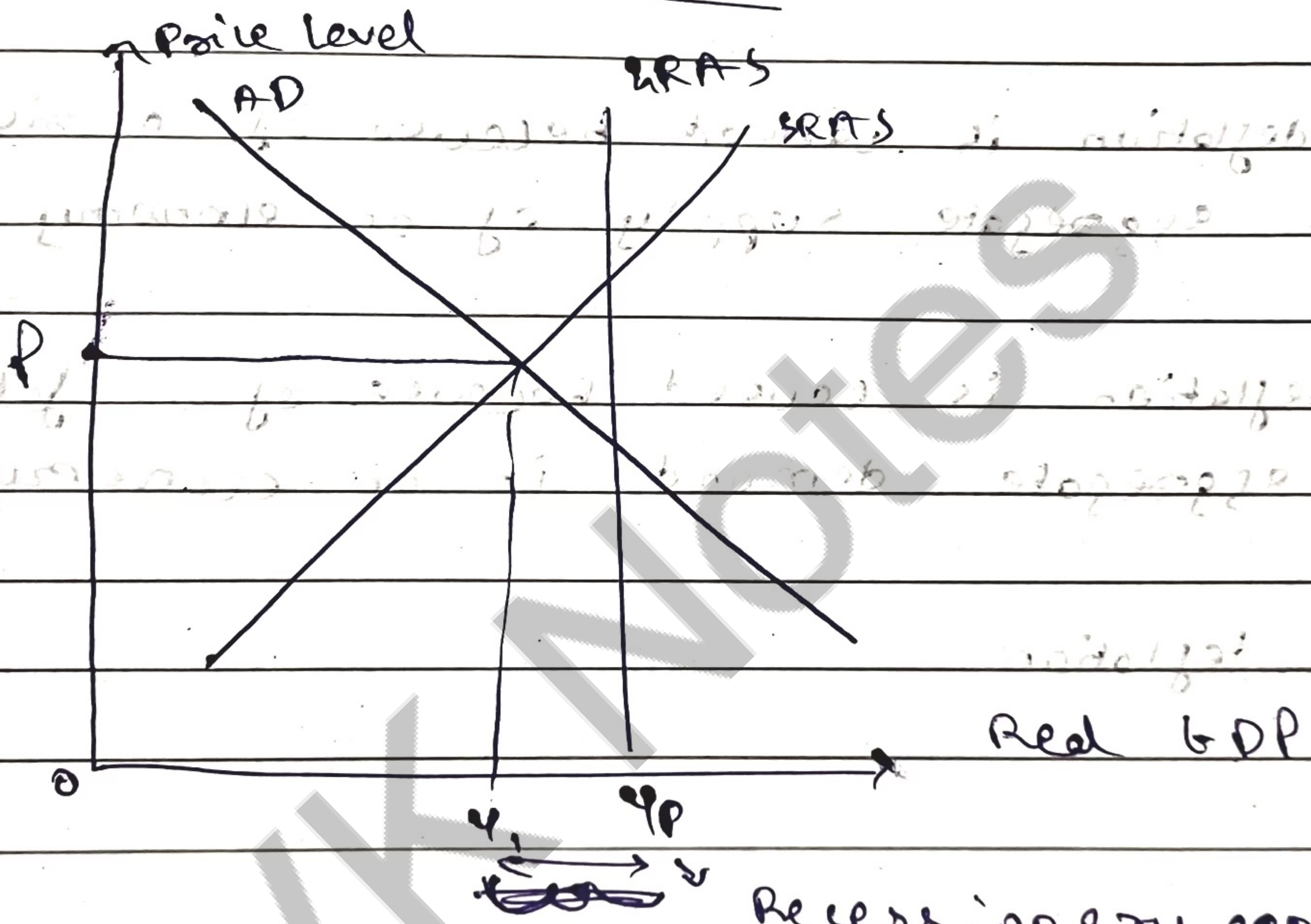
→ Health is affected due to lower income.

→ Crime rates may rise.

→ Marriage disputes

→ Education will be affected.

* **Cyclical Unemployment**



The potential of the economy is Yp. The ~~consume~~ aggreg demand shifts to left and there is under utilisatio of resources and under unemployment due to recessionary gap.