

## Unemployment

### Learning Objective:

By the end of this chapter student should understand

- The used to measure the amount of unemployment
- How unemployment can result from minimum wages law
- How unemployment can arise from bargaining between firms and unions
- How unemployment results when choose to pay efficiency wages

In this chapter students will introduce to the labour market:

We will see how economists measure the performance of the labour market using unemployment statistics:

### Keypoints:

- 1) The unemployment rate is the percentage of those who would willing to job but do not have jobs. Indian Labour market Bureau calculates this statistics monthly based on a survey of thousands of households
- 2) The unemployment rate is an impactness of joblessness. So people who call themselves unemployed but may actually not want to work, and some people would like to work but have left the labour force after an unsuccessful search.
- 3) One reason for unemployment is to find work within a short period of time. Nonetheless such unemployment observed at any given time is attributable to the few people who are unemployed for long periods of time.
- 4) Types of unemployed :
  - 1) Cyclical Unemployment: Cyclical unemployment occurs when there is not enough demand to employ all those we want to work. It is a type that Keynesians economists focus on particularly as they believe it happens when there is disequilibrium in the economy.

2) Seasonal Unemployment: It is fairly self explanatory. Father Christmas tends to only be in demand for a short period of the year, and the rest of the year could certainly be classified as seasonally unemployed. Most other seasonal unemployment is less severe than this, and tends to occur in certain industries. Industries that suffer particularly are:

- Hotel and Catering
- Tourism
- Fruit picking

The effects of seasonal unemployment are often highly regionalized.

3) Frictional Unemployment:

--- when somebody loses their job (or chooses to leave it), they will have to look for another one.

---- On average it will take everybody a reasonable period of time as they search for the right job.

---- The more efficiently the job market is matching people to jobs, the lower this form of unemployment will be higher

----- If there is imperfect information and people do not get to here of jobs available that may suit them then frictional unemployment will be higher

4) Structural Employment :

--- it occurs when the structure of industry changes

---- As an economy develops over time the type of industries may well changes

---- This may be because people's tastes have changed or it may be because technology has moved on the product or service is no longer in demand.

---- Shipbuilding and mining are prime examples the extent of structural unemployment will depend on

- Mobility of labour
- The pace of change in the economy
- The regional structure of industries

## Chapter Outline:--

----- The economy's natural rate of employment refers to the amount of unemployment that the economy normally experiences

2) Each adult can be measured into three categories:

- 1) employed
- 2) unemployed
- 3) not in the labour force

### Definitions:

1) Labour force: total number of workers, including both employed and the unemployed

$$\text{Labour Force} = \text{No. of employed} + \text{No. of unemployed}$$

2) Unemployed rate :  $(\text{Number of unemployment/Labour force}) \times 100$

3) Labour Force participation rate =  $(\text{labour force/Adult Population}) \times 100$

4) Natural Rate of Unemployment: the normal rate of unemployment around which the employment rate fluctuates

5) Discouraged Worker: Individuals who would not willing to work at participation wages, but have given up looking for a job  
----- not counted as labour force

6) Job Search : The process by which workers find appropriate jobs given their tastes and skills.

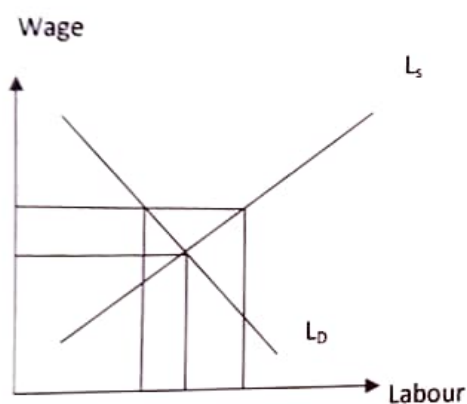
(A) Minimum Wage Laws:

--- Unemployment can also occur because of minimum wage laws.

--- The minimum wage is a price floor.

(i) If the minimum wage is set above the equilibrium wage in the labour market, a surplus of labour will occur.

This is a binding constraint only when the minimum wage is set above the equilibrium wage



Most workers in the economy earn a wage above the minimum wage

Minimum wage laws therefore have the largest effect on workers with low skill and little experience

Anytime a wage is kept above the equilibrium level for any reasons, the result is unemployment

Other causes of this situation include unions and efficiency wages



## Unions and Collective Bargaining

### A. The economics of Unions:

- 1) Collective Bargaining: The process by which unions and firms agree on the terms of employment
- 2) Unions try to negotiate for higher wages, better benefits and better working conditions than the firms would offer if there was no union.
- 3) Strike: the organized withdrawal of labour from a firm by a union.
- 4) Unions raise the wage above the equilibrium wage, resulting in unemployment
- 5) Unions are often believed to cause conflict between insiders (who benefit from high union wages) and outsiders (who do not get the union jobs)
- 6) Outsiders will either remain unemployed or find jobs in firms that are not unionized
- 7) The supply of workers in non-union firms will increase, pushing wages at those firms down.

### B. The Theory of Efficiency Wages:

- (i) Efficiency wages: above equilibrium wages paid by firms in order to increase worker productivity
- (ii) Efficiency wages raises the wage above the market equilibrium wage, resulting in unemployment.
- (iii) There are several reasons why a firm may pay efficiency wages
  - a) Worker Health
    - Better paid workers can afford to eat better and can afford good medical care.

b) Worker Turnover:

---- A firm can reduce turnover by paying a wage greater than its workers could receive elsewhere.

----- this especially helpful to firms that face high hiring and training costs.

c) Worker Effort:

----- if a firm pays a worker more than he or she receive elsewhere, the worker will be more likely to try to protect his or her job by working harder.

----- This is specially helpful for who have difficulty monitoring their workers.

d) Worker Quantity:

---- Offering high wages attracts better pool of applicants

----- This is especially helpful for firms who are not able to perfectly gauge the quality of job applicants