**KEY CONCEPTS AND SKILLS: Unit 2.3b – Unemployment**

**Definitions:**

* **Unemployment**: the number of workers without a job who are willing and able to work
	+ **Unemployment rate**: the number of workers without a job, who are willing and able to work, expressed as a percentage of the labor force
	+ **Labor force**: the number of people who are working plus the number of people who are unemployed (willing and able to work but without a job)
		- (Note: “willing and able” means that the ***labor force*** excludes children, retirees, adult students, people who cannot work due to illness or disability, and people who do not want to work)
* **Hidden unemployment**: unemployment that is not counted in official statistics (including, for example, part-time work counted as full-time,
* **Underemployment**: people of working age with part-time jobs when they would prefer to work full-time or with jobs that do not make full use of their skills and education
* **Structural unemployment**: unemployment resulting from a mismatch between the skills or locations of unemployed workers and the jobs available or from rigidities in the labor market.
	+ **Labor market rigidities**: forces preventing the forces of supply and demand from operating in the labor market (e.g., labor unions, minimum wages, employment protection laws)
* **Frictional unemployment**: unemployment that occurs when workers are between jobs, such as when workers have been fired, their employers went out of business, they are looking for better jobs, etc.
* **Seasonal unemployment**: unemployment resulting from demand for labor that varies on a seasonal basis (e.g., grape pickers at harvest time, life guards in the summer)
* **Cyclical unemployment**: (or **demand-deficient unemployment**) unemployment that occurs during the downturns of the business cycle due to declining or low aggregate demand
* **Natural rate of unemployment**: unemployment level when the economy is producing at its potential or full employment level of output; equal to the sum of structural, frictional and seasonal unemployment.

**Concepts and Applications:**

1. Explain how the unemployment rate is calculated.
2. Outline reasons why unemployment figures may not be accurate.
3. Discuss the potential economic consequences of unemployment.
4. Discuss the potential personal and social consequences of unemployment.

***Types and Causes of Unemployment***

1. Using examples, distinguish among frictional, structural, seasonal and cyclical unemployment.
2. Explain how the sum of structural, frictional and seasonal unemployment relates to the concepts of full employment and potential output.
3. Distinguish among the causes of frictional, structural, seasonal and cyclical unemployment.
	* Using diagrams, explain how a change in demand for particular labor skills can cause structural unemployment.
	* Using a product supply & demand diagram, explain how labor market rigidities can cause structural unemployment.
	* Using monetarist/new classical and Keynesian AS-AD diagrams, explain how cyclical unemployment is caused by a fall in aggregate demand.
4. Using monetarist/new classical and Keynesian AS-AD diagrams, explain the effects of a lower rate of structural unemployment.
5. Using the AD-AS model, explain what types of unemployment an economy is likely to experience when it is in a recessionary gap, in an inflationary gap, and at full employment output.