# Unemployment

Unemployment is calculated by measuring level of unemployment or by taking rate of unemployment.
Level of unemployment is calculated by subtracting people who are on job from participating population.
Level of unemployment= participating population – employed workers
**Participating population** include numbers of employed plus numbers of unemployed. In fact it determines the labour force in the economy at point of time.
Rate of unemployment is calculated by

$$Rate\ of\ unemployment = \frac{number\ of\ unemployed}{participating\ population} \times 100$$

## Labour force

The total number of people in a country who are either in work or unemployed but looking for work. In an economy population is categorized into three age groups i.e. (1) school going children (below 16 years), (2) working population (between 16years to 65years) and (3) retired population or old age (above 65years). Labour force is also considered as participating population which is part of the working population and actually willing to work.

There are many factors which determine size of the labour force. Firstly, the size of population, secondly, the age distribution as mentioned above, thirdly, gender distribution i.e. number of males and females, fourthly, number of people who want to remain in full time education after their secondary education and the number of women who want to join work on a full or part time basis. Rate of participating population determines that what percentage of total population is actually willing to work. A low rate shows either a high percentage of working population is engaged in higher education or many of the workers have taken early retirement or there is a possibility that large proportion of the working population is made up of female who are not actually willing to work.

### Employed, underemployed and unemployed

Underemployed workers may include part time workers even one needs and desires full time employment or may be inadequately employed, especially, employed at a low paying job that requires fewer skills which one possesses.

### Measurement of unemployment

#### Claimant count

The claimant count records the number of people claiming unemployment related benefits. They must declare that they are out of the work, capable of, available for and actively seeking the work during the time period in which their claim is made.
Claimant count is a simple and economical way to measure unemployment. It provides updated and readily available information.

### Problems regarding claimant count

This method is applicable in such economies which offer job seekers‟ allowances”; perhaps claimant count is not workable in most of the economies. Secondly, it may not portrait real picture of unemployment because many of the people are part time worker or may be employed in informal sector of the economy but still they register themselves as unemployed. Similarly many of the people

are actually unemployed but they are reluctant to register themselves as unemployed due to some social reasons.

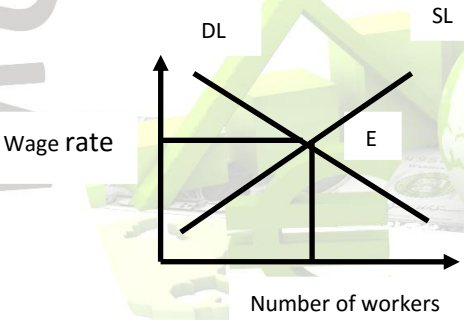
## Survey count

According to this method a survey is conducted to measure unemployment. According to the definition of International Labour Organization (ILO), "number of people who are willing and able to work at the given wage rate but they are unable to get any job and they do not expect any job within fortnight".
One of the advantage of this count that it is applicable everywhere. Since it is survey based hence it is claimed as more accurate because it also includes unemployed which may not be included otherwise.
However, this method is complicated, expensive and time consuming. Secondly, to conduct a survey an accurate „sample" is required, and there is every possibility of „sampling error", due to which it is difficult to get perfect outcomes.
Even with such limitations this method is more commonly used and reliable because one, it is applicable everywhere and secondly it is near to accurate.

### Causes or types of unemployment

### Types of Equilibrium Unemployment

In this case demand for labour is equal to the supply of labour or labour market is at its equilibrium but still no. of workers is unemployed.




### Structural unemployment

It occurs in an economy when there is a change in methods of production or in pattern of consumption. For example if firms become capital intensive instead of labour intensive many of the firms will make workers redundant, which causes unemployment. It is called as ***technical unemployment.*** Similarly if people change their patterns of consumption and stop buying certain good, firms stop producing and many of the workers become unemployed.
Structural unemployment sometimes causes ***regional unemployment***. It occurs when in the particular region of an economy; a certain industry is highly concentrated. If that industry closes, a large number of workforces will become unemployed.
Immobility of labour may severe this problem where labours are reluctant to change their profession or the place.
To reduce such kind of unemployment, rate of technological changes must be reduced as well as increase occupational and geographical mobility among workers.

### Frictional unemployment

It exists in an economy all the time. It occurs when a worker leaves a job voluntarily or in search of better job, it is called as ***voluntary unemployment*** or when a worker is made redundant because of a completion of a task or a contract. For instance, a whitewasher will be frictional unemployed when he

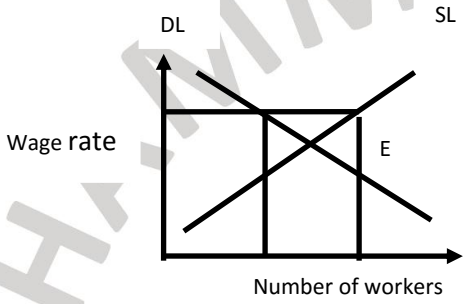
completes a job and searching for another or a film star, who will be considered unemployed between two projects. It may prolong if there are lack of information about job opportunity.

**Seasonal unemployment**

It exists in seasonal industry where workers become unemployed in off season because of fall in the demand for the good or service. For example in tourism industry workers are just employed in particular months and remained unemployed rest of the year. It may be severe if there is occupational or geographical immobility among labour force.

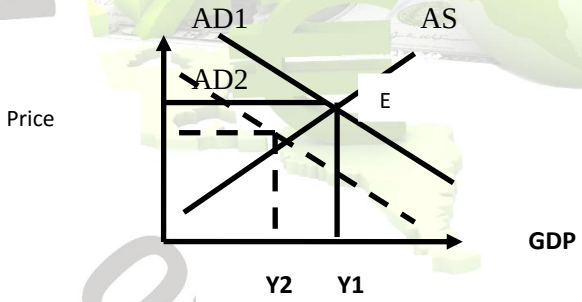
**Disequilibrium unemployment**

It occurs when labour market is at its disequilibrium due to recessionary pressure, trade union, minimum wage rate, excess supply of labour or due to wage stickiness.

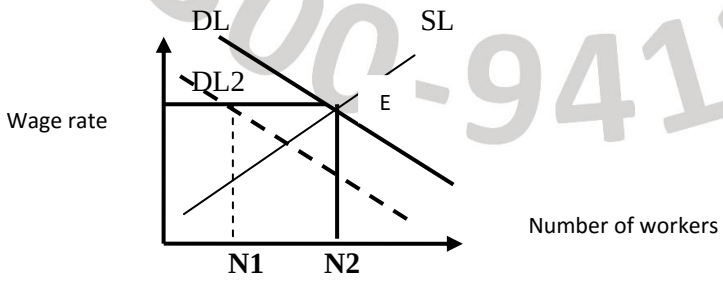



**Cyclical or demand deficient unemployment**

It is associated with economic recession. As the economy moves in recession, consumers' demand falls. Firms find it difficult to sell their current level of output. Therefore they cut back their output as well as the amount of labour they employ. This is why it is also called as demand deficient unemployment. As demand for labour falls there must be fall in wage rate, but, because of **wage**




**Stickiness** market will be in the state of disequilibrium and unemployment occurs N1N2.

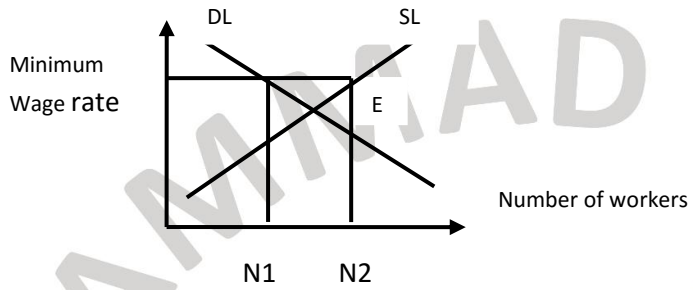


## Other reasons of unemployment

### Trade union and Government intervention

Trade union may causes unemployment in an economy. Due to the intervention of trade union cost of labour increases, therefore firms make redundant to many of their employees.

The introduction of minimum wage rate legislation also causes unemployment. Because an increase in minimum wage rates increases cost of production hence many of the firms make their workers redundant. For instance in the following diagram N1N2 workers are made redundant.




Unemployment benefits are another reason for unemployment. Sometimes people are reluctant to work and pretend as unemployed when considerable amounts of benefits are given to them.

### Cost of unemployment

Due to unemployment, an economy is unable to produce to its potential and its output locates below then the production possibility curve.

Government budget's deficit may be increased because on one side there is an increase government spending and on the other hand there is a fall in government's tax revenue.

Government will have to forgo many of its projects because of lack of funds hence infrastructure may remain poor and it restrict economic development.

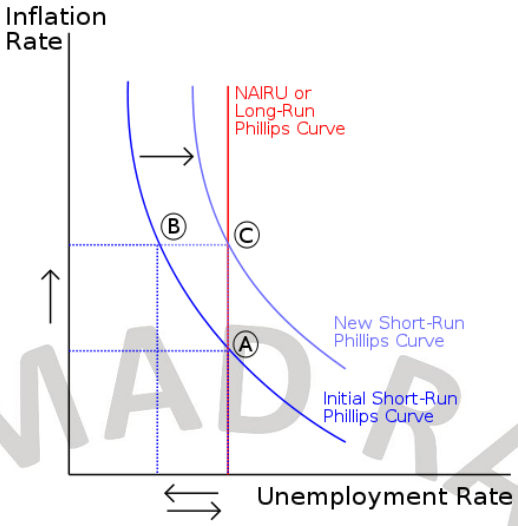
There is an increase in dependency ratio, i.e. increase in number of dependents upon one worker, and it reduces living standard.

To bridge up the gap between income and spending whether government will have to impose more taxes on employed which reduces their disposable income and purchasing power and it may be disincentive to work or may incur national debts which have its own long term repercussion.

Unemployment causes political and social unrest which leads to political and economical instability.

### Full Employment and Natural Rate of Unemployment (NAIRU)

According to Friedman a monetarist economist, full employment means the lowest level of unemployment that can be *sustained* given the structure of the economy. This equals the **N**on-**A**ccelerating **I**nflation **R**ate of **U**nemployment (NAIRU) when the real gross domestic product equals potential output. This concept is identical to the "natural" rate but reflects the fact that there is nothing "natural" about an economy. At this level of unemployment, there is no unemployment above the level of the NAIRU. That is, at full employment there is no *cyclical* or deficient-demand unemployment. Long run Philip's curve shows value of NAIRU. If rate of unemployment remains below then this natural rate for a long time then it will accelerate rate of inflation provided that there is no control on wages and prices and, if rate of unemployment is above then the natural rate for a long time it decelerate inflation. The theory says that inflation does not rise or fall if unemployment rate is equal to the natural rate of unemployment.




Philip's curve shows short run tradeoff between unemployment and inflation. To reduce unemployment government forms policies to increase aggregate demand. It encourages firms to employ more workers, hence unemployment falls (A→B). It will have an upwards pressure on wage rates which increase cost of production. However, firms realize that they should cut back their output, cost and some workers. Now there is a shift from initial Philip's curve to new short run Philip's curve (B→C). It shows new inflation rate is adjusted to the system and once again economy at its 'natural rate of unemployment' which can be shown by long run Philip's curve.

Monetarist argue that it is a short run tradeoff between unemployment and inflation rate, in the long run expansionary monetary or fiscal policies will have no impact to reduce unemployment but succeed in raising the inflation rate which can be shown in above fig. It is called expectations-augmented Philips curve and presented by Milton Friedman, where vertical curve shows natural rate of unemployment and called as long run Philip's curve.