13 Defining Unemployment

14 Categories of Unemployment

15 The Costs of Inflation

16 Measuring Inflation
Unemployment Rate

• **Employment** is the number of people currently employed in the economy, either full time or part time.

• **Unemployment** is the number of people who are actively looking for work but aren’t currently employed.

• The **labor force** is equal to the sum of employment and unemployment.
Unemployment Rate

- The **labor force participation rate** is the percentage of the population aged 16 or older that is in the labor force.

  \[
  \text{Labor force participation rate} = \frac{\text{Labor force}}{\text{Population age 16 and older}} \times 100
  \]

- The **unemployment rate** is the percentage of the total number of people in the labor force who are unemployed.

  \[
  \text{Unemployment rate} = \frac{\text{Number of unemployed workers}}{\text{Labor force}} \times 100
  \]
Unemployment Rate

The U.S. Unemployment Rate, 1948–2013
Biases in the Unemployment Rate

- **Upward Bias:**
  - Some people could get a job but are very picky.

- **Downward Bias:**
  - **Discouraged workers** are non-working people who are capable of working but have given up looking because of the state of the job market.
  - **Marginally attached workers** would like to be employed and have looked for a job in the recent past but are not currently looking for work.
  - **Underemployment** is the number of people who work part time because they can’t find full-time jobs.
Measuring the Unemployment Rate


1. Unemployment rate...

2. ...plus discouraged workers

3. ...plus marginally attached workers

4. ...plus involuntary part-time workers
The Unemployment Rate

Unemployment Rates of Different Groups, 2007

<table>
<thead>
<tr>
<th>Group</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>5.0%</td>
</tr>
<tr>
<td>African-American</td>
<td>9.0%</td>
</tr>
<tr>
<td>White teenager</td>
<td>14.4%</td>
</tr>
<tr>
<td>African-American teenage</td>
<td>33.1%</td>
</tr>
</tbody>
</table>
Growth and Unemployment

• During every recession in the last 30 years, the unemployment rate rose.

• During periods of expansion the unemployment rate usually falls, however, it sometimes lags GDP growth.
Unemployment Rate

Unemployment and Recessions, 1978-2013

Unemployment rate

Year


12%
10%
8%
6%
4%
2%
0%
Unemployment Rate: Okun’s Law

Growth and Changes in Unemployment, 1949-2012

Change in unemployment rate (percentage points)

Real GDP growth rate

Average growth rate, 1949–2012
Economics in Action: New Graduates

![Graph showing unemployment rates for college graduates, aged 21-23, and college graduates, 25 and older.]