

Chapter 28: Unemployment
Principles of Economics, 8th Edition
N. Gregory Mankiw
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1. Introduction
 - a. *In this chapter we are taking a long term view.*
 - b. The natural rate of unemployment is the amount of unemployment that the economy normally experiences.
 - c. Cyclical unemployment refers to the year to year fluctuations.
 - d. We examine three questions.
 - i. How does the government measure the economy's rate of unemployment?
 - ii. What problems arise in interpreting the unemployment data?
 - iii. How long are the unemployed typically without work?
 - e. Unemployment is analyzed with four explanations
 - i. Job search,
 - ii. Minimum wage laws,
 - iii. Unions, and
 - iv. Efficient wages.

2. Identifying Unemployment
 - a. How Is Unemployment Measured?
 - i. Based on the Current Population Survey of 60,000 households.
 - ii. Workers can be
 - (1) employed,
 - (2) unemployed or
 - (3) not in the labor force.
 - iii. Labor force is the total number of workers, including both the employed and the unemployed. P. 579.
 - iv. **Figure 1: The Breakdown of the Population in 2016, P. 579.**
 - v. Unemployment rate is the percentage of the labor force that is unemployed. P. 579.
 - vi. Labor force participation rate is the percentage of the adult population that is in the labor force. P. 580.
 - (1) **Table 1: The Labor Market Experiences of Various Demographic Groups. P. 580.**
 - (2) **Figure 2: Unemployment Rate since 1960. P. 581.**
 - vii. The natural rate of unemployment is the normal rate of unemployment around which the unemployment rate fluctuates. P. 581.
 - viii. Cyclical unemployment is the deviation of unemployment from its natural rate. P. 581.
 - b. **Case Study: Labor Force Participation of Men and Women in the U.S. Economy, P. 581.**
 - i. **Figure 3: Labor Force Participation Rates for Men and**

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Women since 1950. P. 582.

(1) *Is there a conspiracy here?*

- c. Does the Unemployment Rate Measure What We Want It To?
 - i. It is much harder to distinguish between a person who is unemployed and a person who is not in the labor force.
 - ii. Discouraged workers are individuals who would like to work but have given up looking for job. P. 591.
 - iii. **Table 2: Alternative Measures of Labor Underutilization, P. 583.**
- d. How Long Are the Unemployed Without Work?
 - i. Most spells of unemployment are short, and most unemployment observed at any given time is long term.
 - (1) The typical long term unemployed worker is a white man with a high school education or less.
 - (2) *It is a particular problem because this recession has been so long.*
 - a. Why Are There Always Come People Unemployed?
 - i. Four reasons are discussed here.
 - (1) One based on frictional unemployment and three based on structural unemployment.
 - ii. Frictional unemployment results because it takes time for workers to search for the jobs that best suit their tastes and skills. P. 585.
 - iii. Structural unemployment results because the number of jobs available in some labor markets is insufficient to provide a job for everyone who wants one. P. 585.
 - iv. *Sometimes it is worthwhile to think in terms of voluntary and involuntary unemployment.*
 - v. **FYI: The Jobs Number, P. 585.**
- 3. Job Search
 - a. Job search is the process by which workers find appropriate jobs given their tastes and skills. P. 586.
 - b. Why Some Frictional Unemployment is Inevitable
 - i. As people move between jobs.
 - c. Public Policy and Job Search
 - i. The government can provide valuable information.
 - (1) *It might be a better idea to gradually decrease the benefits.*
 - d. Unemployment insurance is a government program that partially protects workers' incomes when they become unemployed. P. 587.
 - (1) *This is a good example of "moral hazard."*
 - (2) *Moral hazard is the process by which people increase activities when they have insurance that protects them*

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against the adverse effect of the activities.

(3) *People with health insurance tend to see doctors more than people without insurance.*

- e. Minimum Wage Laws
 - i. **Figure 4: Unemployment from a Wage above the Equilibrium. P. 598.**
 - ii. **Case Study: Who Earns the Minimum Wage? P. 589.**
 - iii. **In the News: Should the minimum wage be raised to \$15 an hour?**
 - (1) **Unlikely.**
 - (2) **EITC is better.**
 - iv. This cause along with the following two is based on structural unemployment.
 - f. Unions and Collective Bargaining
 - i. The goal of a union is higher than equilibrium wages.
 - ii. Union is a worker association that bargains with employers over wages and working conditions. P. 592.
 - iii. The economics of unions
 - (1) Collective bargaining is the process by which unions and firms agree on the terms of employment. P. 592.
 - (2) Strike is the organized withdrawal of labor from a firm by a union. P. 592.
 - iv. Are unions good or bad for the economy?
 - g. The Theory of Efficiency Wages
 - i. Efficiency wages above equilibrium wages paid by firms in order to increase worker productivity. P. 594.
 - ii. Worker health
 - iii. Worker turnover
 - iv. Worker effort
 - v. Worker quality
 - vi. **Case Study: Henry Ford and the Very Generous \$5 a Day Wage, P. 595.**
 - (1) Ford benefitted from low worker turnover, high worker quality, and high worker effort.
4. Conclusion
5. Summary