Chapter 28: Unemployment
Principles of Economics, 8th Edition
N. Gregory Mankiw
Page 1

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.
      i. Figure 3: Labor Force Participation Rates for Men and
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.
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.
   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
       (1) Ford benefitted from low worker turnover, high worker quality, and high worker effort.

4. Conclusion

5. Summary