

Module 2: National Economic Goals

Topic 1 Content: Unemployment

Introduction

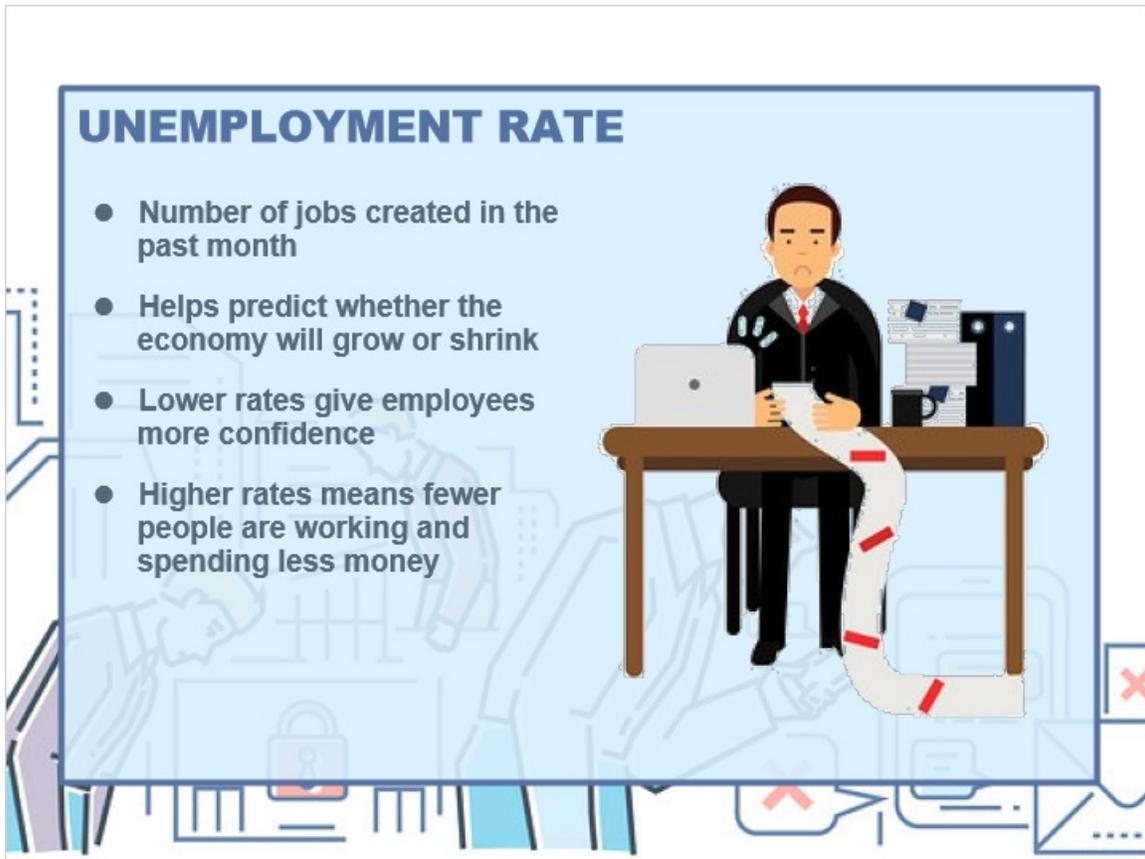


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Unemployment Rate



How well is the economy doing? One of the most important statistics to look at in order to answer this question is the unemployment rate, which comes out every month. Why is it so important? The unemployment rate tells economists how many jobs were created or lost during the past month, and helps predict whether the economy will grow or shrink in the near future.

The unemployment data that you hear about in the news, predominantly the unemployment rate, influences the economy. In general, the lower the unemployment rate, the more confident people will be that, if they lose their job, or want to change jobs, they can do so pretty easily. They feel more secure economically, and will buy goods, which keeps the economy growing. Also, when the rate is low, people might ask for a raise, because if they don't get it, they have a good chance of getting a job at another company.

However, if the unemployment rate is high, that means more people are not working and not spending money to fuel our economy; and people with jobs may not spend as much either, because they feel less secure.

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Definition

DEFINITION

- Unemployment Rate = $\frac{\text{Number Unemployed}}{\text{Total Labor Force}}$
- Formula does not account for those seeking full time work
- Formula does not include those no longer seeking work
- Some people may be taking any job they can get

In order to determine the employment rate, economists simply divide the number of people who are unemployed by the labor force, which is the total number of workers in the country, both employed and unemployed.

This number doesn't tell the whole story about unemployment. Do you know anyone who has a part-time job but is looking for full time work? As far as the unemployment rate is concerned, this person would be considered fully employed.

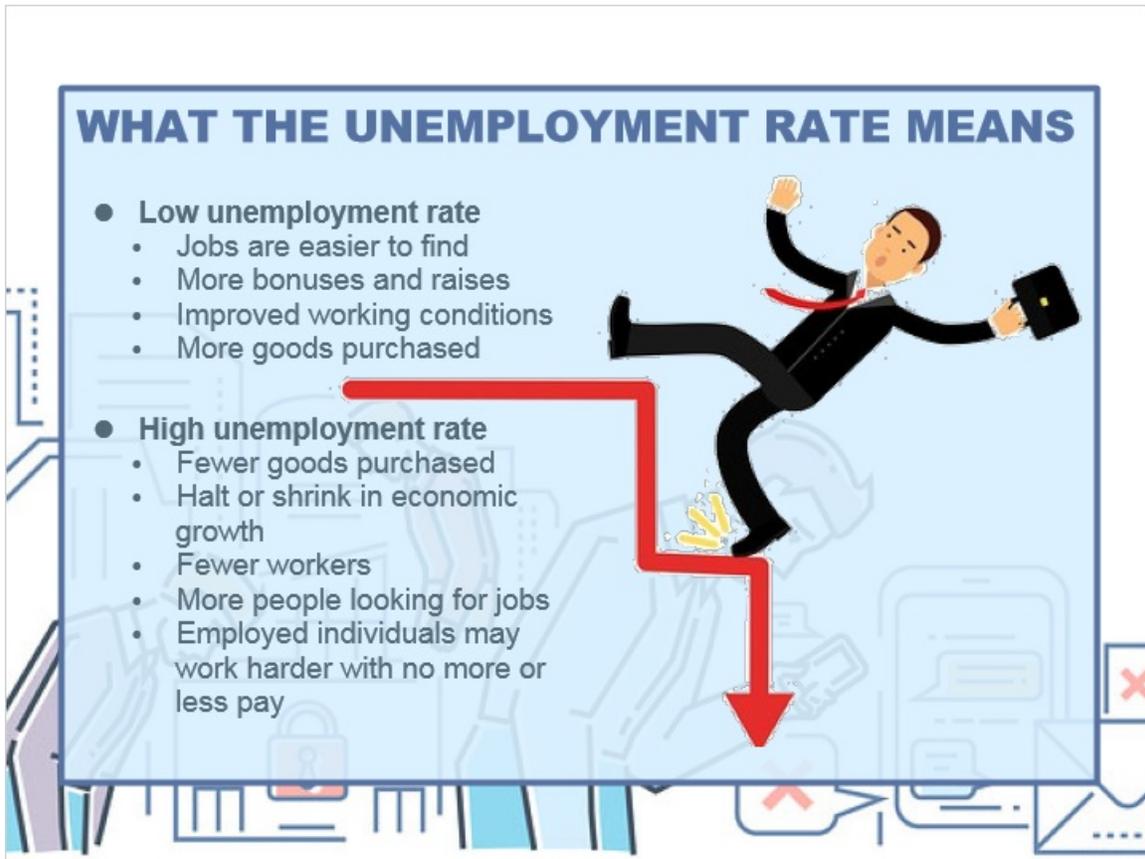
Also, some people may have given up looking for work because they've been searching without success for so long. Because of this, they are no longer considered part of the labor force and aren't included in the unemployment rate.

You can see how the unemployment rate might be distorted by these omissions, especially during times when it's difficult to get a job and people might take any work they can get.

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What the Unemployment Rate Means



What does the unemployment rate really tell us?

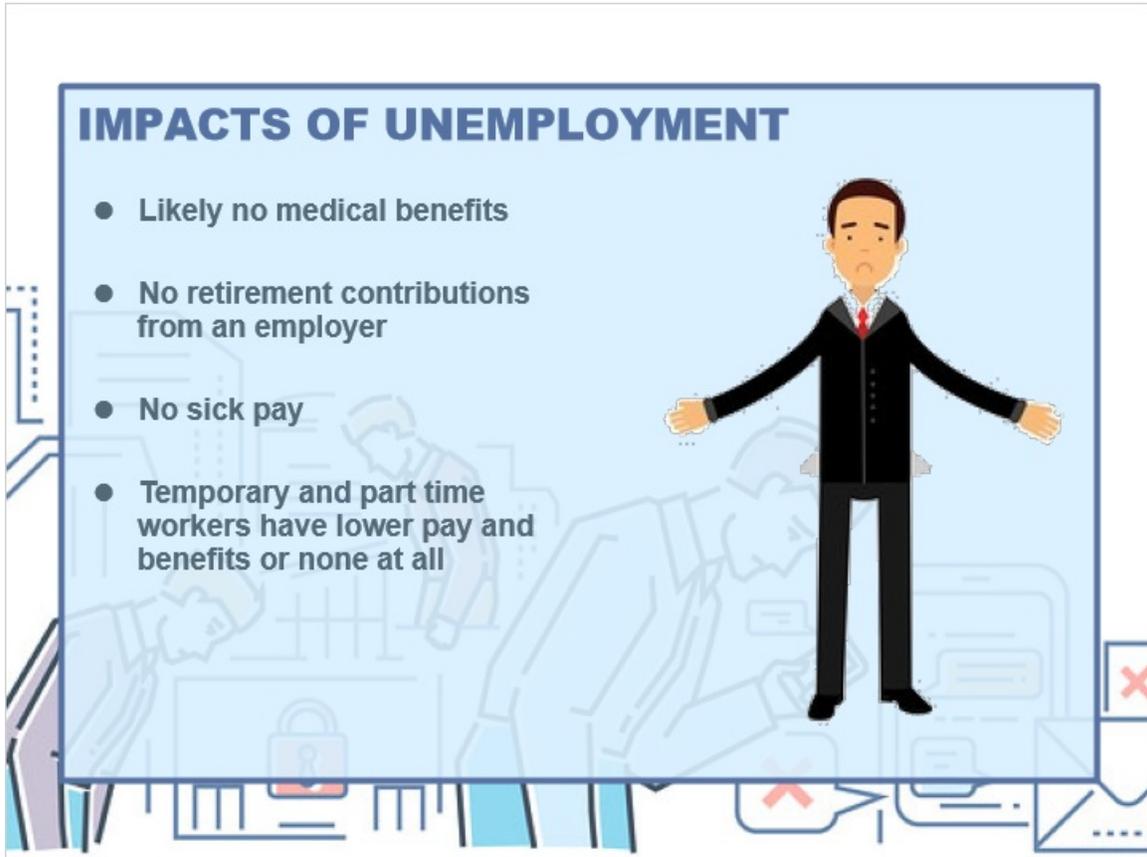
When the unemployment rate is low, jobs are easier to find, and most people are not as concerned about losing their jobs. Because companies have to make their current employees happy, many people get bonuses or raises, along with other improvements to their working conditions. As mentioned earlier, this can be good for the economy because people feel more secure economically, and will buy goods, which keeps the economy growing.

However, when the unemployment rate is high due to a downturn in the economy, this can cause higher levels of unemployment. As people feel less secure about their financial situation and buy fewer things, this can stop the economy from growing, or even cause it to shrink. Of course, when the rate is high, there are fewer people working, and more looking for fewer jobs. Those people with jobs might find that they have to do more work without getting paid any extra since companies have more bargaining power. Companies know that it's more difficult for you to find work, so you're less likely to quit. Some workers may even agree to pay cuts when the rate is high.

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Impacts of Unemployment



What are some of the ways that unemployment can impact people?

Think about those people who are working part-time or don't have a job and are looking for work. Without full time employment, chances are good that these people don't have medical benefits.

What does this mean? They have to pay for any medical treatments by themselves.

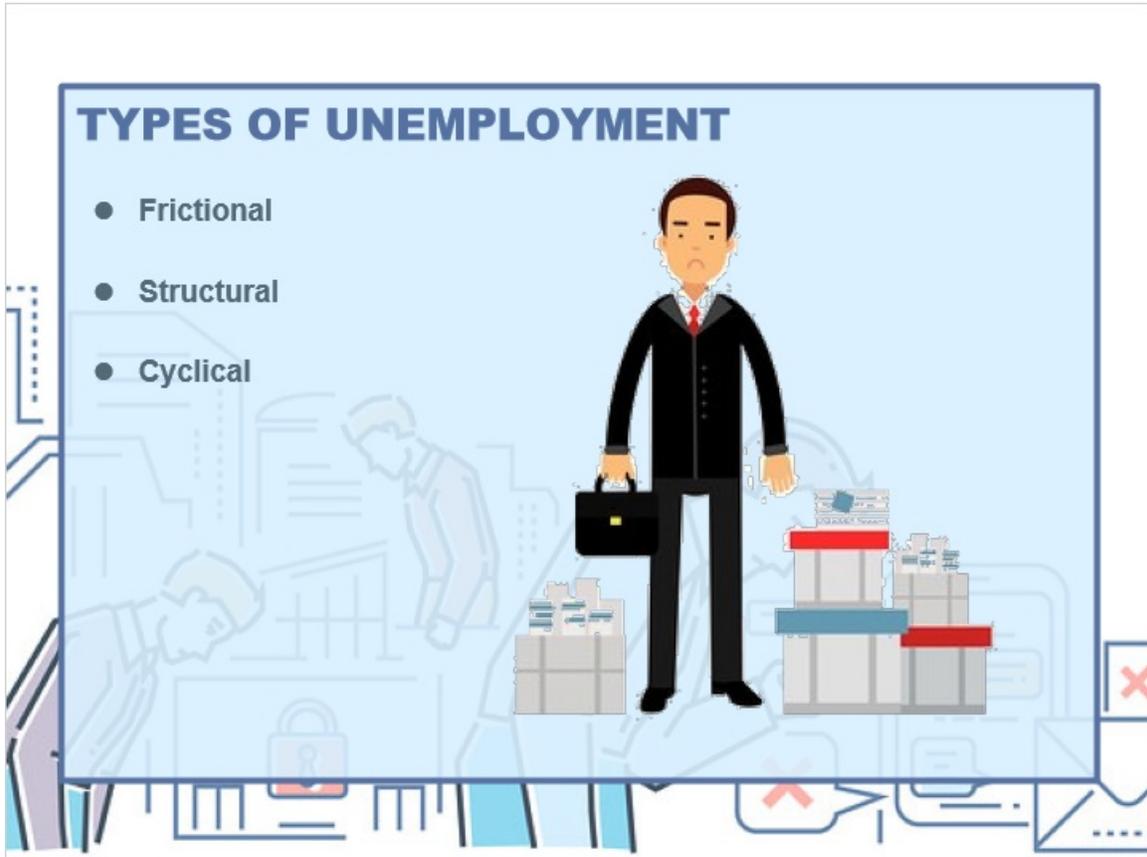
There are other types of benefits you often receive from employers such as retirement contributions and sick pay. Without sick pay, if you can't go to work because you are sick, you won't be paid that day.

For the most part, pay and benefits tend to be lower or non-existent for temporary and part-time workers.

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Types of Unemployment



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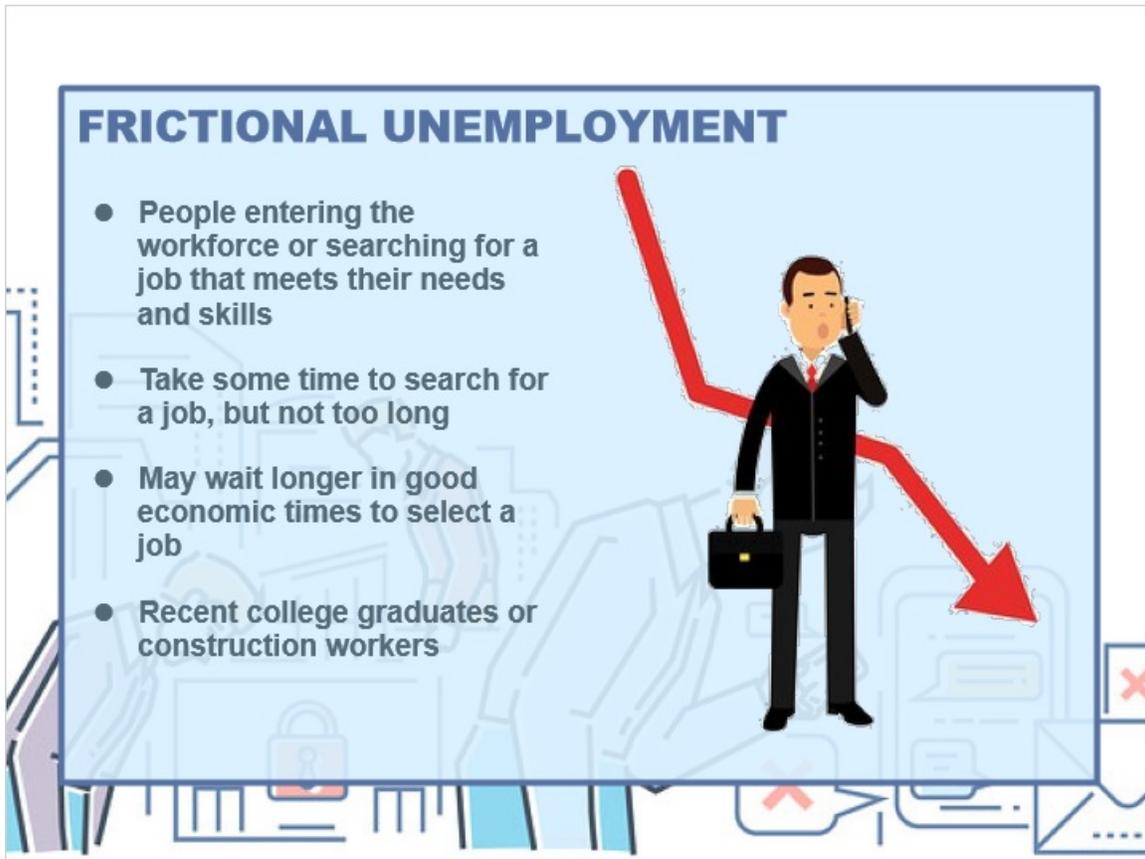
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Frictional Unemployment



When people are entering the workforce, or they quit their existing job in search of one that better matches their needs and skills, their unemployment is considered frictional. Usually, these people are more interested in finding a job that best suits them rather than taking the first job that comes along. People in this category will take some time for their job search, but not too long. What type of job they will take depends a lot on whether they feel that there are other better jobs out there. In good economic times, they may wait longer, but in bad economic times, they may compromise.

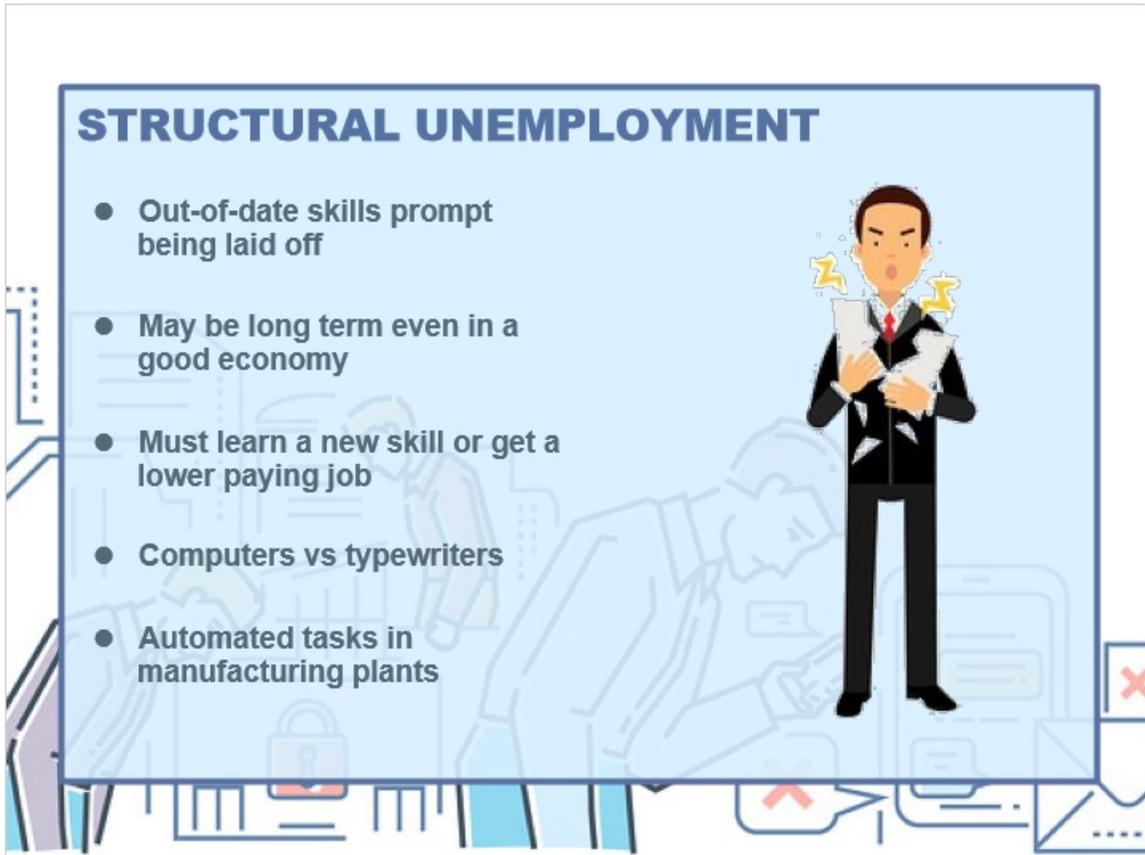
Some examples are a recent college graduate who is looking for a job to match their specialty, or a construction worker who puts up drywall is looking for a better paying job that utilizes their carpentry skills.

Even in the best economic times, there will be frictional unemployment as people seek better jobs.

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Structural Unemployment



STRUCTURAL UNEMPLOYMENT

- Out-of-date skills prompt being laid off
- May be long term even in a good economy
- Must learn a new skill or get a lower paying job
- Computers vs typewriters
- Automated tasks in manufacturing plants

The infographic features a central illustration of a man in a black suit and red tie, looking stressed with his hands on his head. He is surrounded by floating dollar signs and a red 'X' mark. The background is light blue with faint outlines of people and a padlock icon.

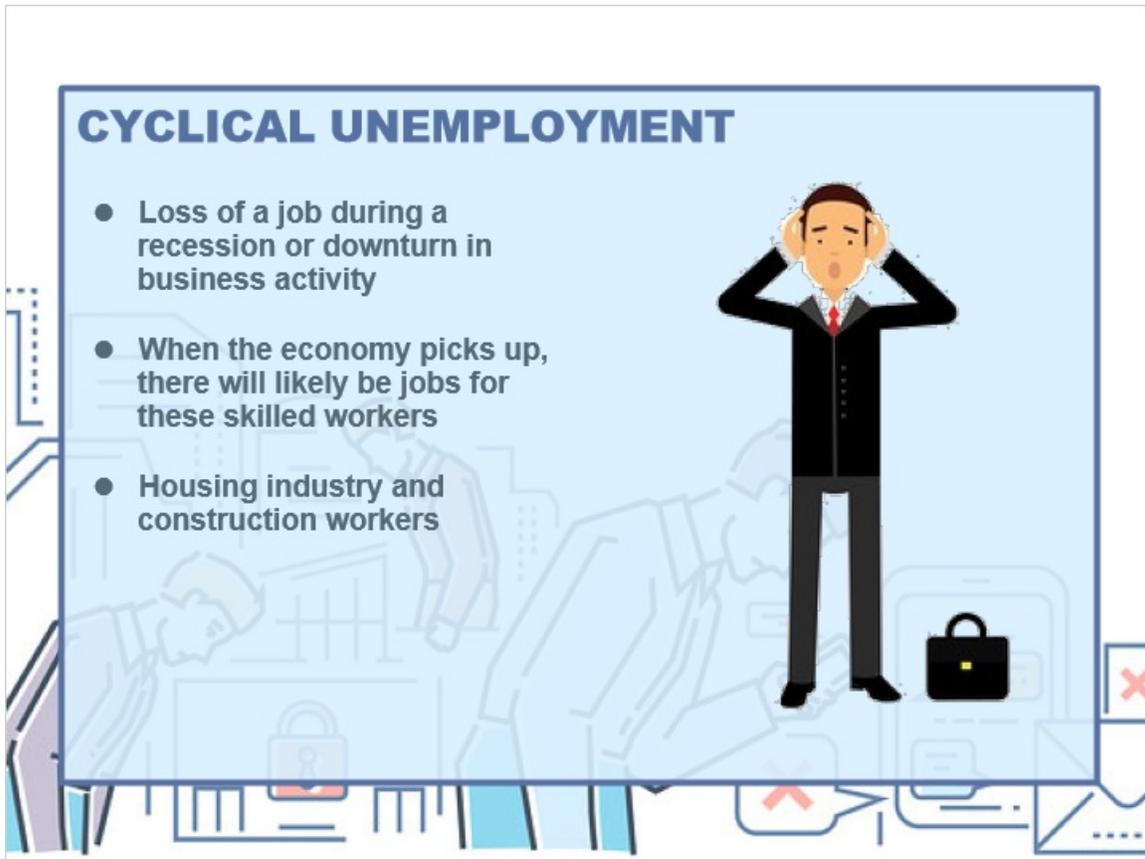
When someone is laid off because the skills they have are out-of-date and no longer needed, and they can't find a job because they don't have any skills that companies currently want, they fall under structural unemployment. Unemployment for these workers can be long-term, even when economy is good, because there may be no new jobs that require their skills. Often, the only way these people can get jobs is to learn new skills, or accept a much lower salary.

For example, when companies started using computers in their offices, workers who could only use a typewriter had to learn how to use computers, or they were out of work. The same is true for many manufacturing plants now where workers are more highly trained, and older tasks have been automated and performed by robots.

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Cyclical Unemployment



Cyclical unemployment is when people lose their jobs due to a recession or downturn in business activity. As people buy fewer products, companies don't need to produce as much and lay off those workers they don't need. When the economy picks up, these workers will most likely be rehired because they still have skills that are in demand.

Think of the housing industry. Many builders have stopped building houses because people have stopped buying them due to the downturn in the economy. The builders laid off many of their construction workers since they didn't currently need them.