

Unemployment

Unemployment occurs when a person who is actively searching for employment is unable to find work. The most frequent measure of unemployment is the unemployment rate, which is the number of unemployed people divided by the number of people in the labor force.

Unemployment is defined by the U.S. Bureau of Labor Statistics as people who do not have a job, have actively looked for work in the past four weeks, and currently are available for work. Also, people who were temporarily laid off and were waiting to be called back to that job are included in unemployment statistics.

Unemployment can have many sources, such as the following:

- new technologies and inventions
- the status of the economy, which can be influenced by a recession
- competition caused by globalization and international trade
- policies of the government
- regulation and market

Types of Unemployment

Classical unemployment

Classical, or real-wage, unemployment, occurs when real wages for a job are set above the market-clearing level, causing the number of job-seekers to exceed the number of vacancies. On the other hand, most economists argue that as wages fall below a livable wage, many choose to drop out of the labor market and no longer seek employment. That is especially true in countries in which low-income

families are supported through public welfare systems. In such cases, wages would have to be high enough to motivate people to choose employment over what they receive through public welfare.

Cyclical unemployment

Cyclical, deficient-demand, or Keynesian unemployment occurs when there is not enough aggregate demand in the economy to provide jobs for everyone who wants to work. Demand for most goods and services falls, less production is needed and consequently fewer workers are needed, wages are sticky and do not fall to meet the equilibrium level, and unemployment results.

With cyclical unemployment, the number of unemployed workers exceeds the number of job vacancies and so even if all open jobs were filled, some workers would still remain unemployed. Some associate cyclical unemployment with frictional unemployment because the factors that cause the friction are partially caused by cyclical variables.

Structural unemployment

Structural unemployment occurs when a labour market is unable to provide jobs for everyone who wants one because there is a mismatch between the skills of the unemployed workers and the skills needed for the available jobs. Structural unemployment is hard to separate empirically from frictional unemployment except that it lasts longer. As with frictional unemployment, simple demand-side stimulus will not work to abolish this type of unemployment easily.

Structural unemployment may also be encouraged to rise by persistent cyclical unemployment: if an economy suffers from longlasting low aggregate demand, it means that many of the unemployed become disheartened, and their skills

(including job-searching skills) become "rusty" and obsolete. Problems with debt may lead to homelessness and a fall into the vicious circle of poverty.

Frictional unemployment

Frictional unemployment is the time period between jobs in which a worker searches for or transitions from one job to another. It is sometimes called *search unemployment* and can be voluntary, based on the circumstances of the unemployed individual. Frictional unemployment exists because both jobs and workers are heterogeneous, and a mismatch can result between the characteristics of supply and demand. Such a mismatch can be related to skills, payment, work-time, location, seasonal industries, attitude, taste, and a multitude of other factors. New entrants (such as graduating students) and re-entrants (such as former homemakers) can also suffer a spell of frictional unemployment.

Hidden unemployment

Official statistics often underestimate unemployment rates because of hidden, or covered, unemployment. That is the unemployment of potential workers that are not reflected in official unemployment statistics because of how the statistics are collected. In many countries, only those who have no work but are actively looking for work and/or qualifying for social security benefits are counted as unemployed. Those who have given up looking for work and sometimes those who are on government "retraining" programs are not officially counted among the unemployed even though they are not employed.