



Chapter 13: Economic Challenges

Section 1

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ECONOMICS

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Objectives

1. **Differentiate** between frictional, seasonal, structural, and cyclical unemployment.
2. **Describe** how full employment is measured.
3. **Explain** why full employment does not mean that every worker is employed.



Key Terms

- **frictional unemployment:** type of unemployment that occurs when people take time to find a job
- **structural unemployment:** type of unemployment that occurs when workers' skills do not match those needed for the jobs available
- **globalization:** the shift from local to global markets as countries seek foreign trade and investment



Key Terms, cont.

- **seasonal unemployment:** type of unemployment that occurs as the result of harvest schedules, vacations, or when industries make seasonal shifts in their production schedules
- **cyclical unemployment:** unemployment that rises during economic downturns and falls when the economy improves
- **unemployment rate:** the percentage of the nation's labor force that is unemployed



Key Terms, cont.

- **full employment:** the level of employment reached when there is no cyclical unemployment
- **underemployed:** working at a job for which one is overqualified or working part-time when full-time work is desired
- **discouraged worker:** someone who wants a job but has given up looking



- What are the causes of unemployment?
 - Unemployment is caused by:
 - People being between jobs for one reason or another
 - A company or industry shuts down for a season
 - Workers skills not matching those needed for the jobs that are available
 - Economic downturns



Types of Unemployment

- Unemployment always exists, even in a booming economy.
- Economists look at four categories of unemployment: frictional, seasonal, structural, and cyclical.
 - Frictional unemployment occurs when people take time to find a job.
 - A person who is frictionally unemployed may be:
 - Changing jobs to find more satisfying works
 - Laid off and looking for a new job
 - Just out of school and interviewing for a job
 - Returning to the workforce after a voluntary absence



Structural Unemployment

- When the structure of the economy changes, the skills that workers need to succeed also change.
 - Workers who lack necessary skills lose their jobs.
 - Structural unemployment occurs when workers' skills do not match those needed for the jobs that are now available.



Structural Unemployment, cont.

- There are five major causes of structural unemployment:
 - The development of new technology
 - The discovery of new resources
 - Changes in consumer demand
 - Globalization
 - Lack of education



Structural Unemployment, cont.

- In the 1990s and 2000s, policymakers developed training programs to help workers gain new computer skills in light of the fact that computer technology, globalization, and other structural changes threatened the future of many workers.
 - Retraining takes time, however, and the new skills do not ensure that the trainees will obtain high-wage jobs.



Seasonal Unemployment

- Seasonal unemployment occurs when industries slow or shut down for a season or make seasonal shifts in their production schedules.
 - Seasonal unemployment can also occur as a result of harvest schedules or vacations.
 - Economists expect to see seasonal unemployment throughout the year.
 - Government policymakers do not take steps to prevent this kind of unemployment because it is a normal part of a healthy economy.



Seasonal Unemployment, cont.

- The lives of seasonally unemployed workers can be very difficult.
 - Migrant farm workers, for example, face seasonal unemployment once the harvest season is over. Harvest schedules are often unpredictable, making the transition from one crop to another hard to gauge.



Cyclical Unemployment

- Unemployment that rises during economic downturns and falls when the economy improves is called cyclical unemployment.
 - During a recession, many workers lose their jobs. Many of these laid-off employees will be rehired when the recession ends and the business cycle resumes an upward trend.
 - Today, unemployment insurance provides weekly payments to workers who have lost their jobs. The payments usually provide about half of a worker's lost wages each week for a limited amount of time.



Factors Outside the Economy

- Sometimes, events outside the economy can cause unemployment.
 - Many jobs in travel and tourism were lost following the 9/11 attacks.
 - In 2005, the destruction by Hurricane Katrina caused thousands of people to lose their jobs.



Measuring Unemployment

- Checkpoint: How is the unemployment rate calculated?
 - The government keeps track of how many people are unemployed and why.
 - The Bureau of Labor Statistics (BLS) computes the unemployment rate from a monthly household survey of 60,000 families who represent a cross-section of the United States.

To calculate the unemployment rate, use the following formula:



Number of people unemployed **divided by** number of people in the civilian labor force **multiplied by** 100

For example,

if the number of people unemployed = 7 million
and the number of people in the civilian
labor force = 151.4 million

then,

$$7 \div 151.4 = .046$$

$$.046 \times 100 = 4.6$$

Therefore,

the unemployment rate is 4.6%

SOURCE: Bureau of Labor Statistics





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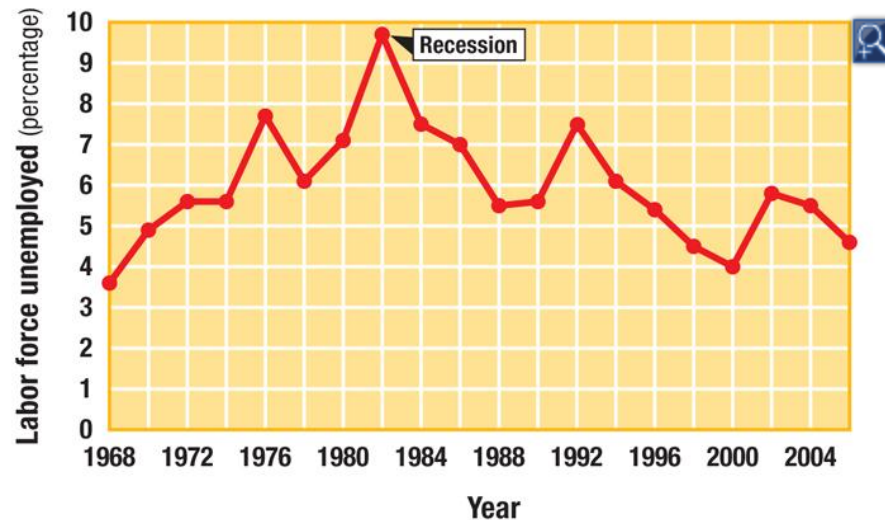
Measuring Unemployment, cont.

- The unemployment rate is adjusted for seasonal unemployment.
 - Taking this step allows economists to more accurately compare unemployment rate from month to month. This comparison helps them better detect changing economic conditions.
 - The unemployment rates is only an average for the nation. It does not reflect regional differences.



Full Employment

- Economists generally agree that in an economy that is working properly, an unemployment rate of around 4 to 6 percent is normal.
 - Full employment is achieved when no cyclical unemployment exists.
 - Why does a high unemployment rate correspond with a recession?



SOURCE: Bureau of Labor Statistics



Full Employment, cont.

- Full employment means that nearly everyone who wants a job has a job.
 - However, some people remain underemployed, which means they are working at a job for which they are overqualified, or working part-time when they desire full-time work.
 - Other people simply give up hope of finding work. These discouraged workers have stopped searching for employment.
 - Although they are without work, discouraged workers do not appear in the unemployment rate determined by the BLD because they are not actively looking for work.



Review

- Now that you have learned about the causes of unemployment, go back and answer the Chapter Essential Question.
 - How much can we reduce unemployment, inflation, and poverty?

