

ECONOMICS II

MACROECONOMICS

BMEGT30A101, BMEGT30A103
Monday: 8.15–9.45 (QA240)

LABOR MARKET – UNEMPLOYMENT – CH 7

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Consulting hours: Monday 10–11, QA215



2019. 03. 18.

Gazdaság- és Társadalomtudományi Kar • Közgazdaságtan Tanszék

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1. Unemployment (U)
2. Types of U
3. Measure of U
4. Conclusion



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1. UNEMPLOYMENT

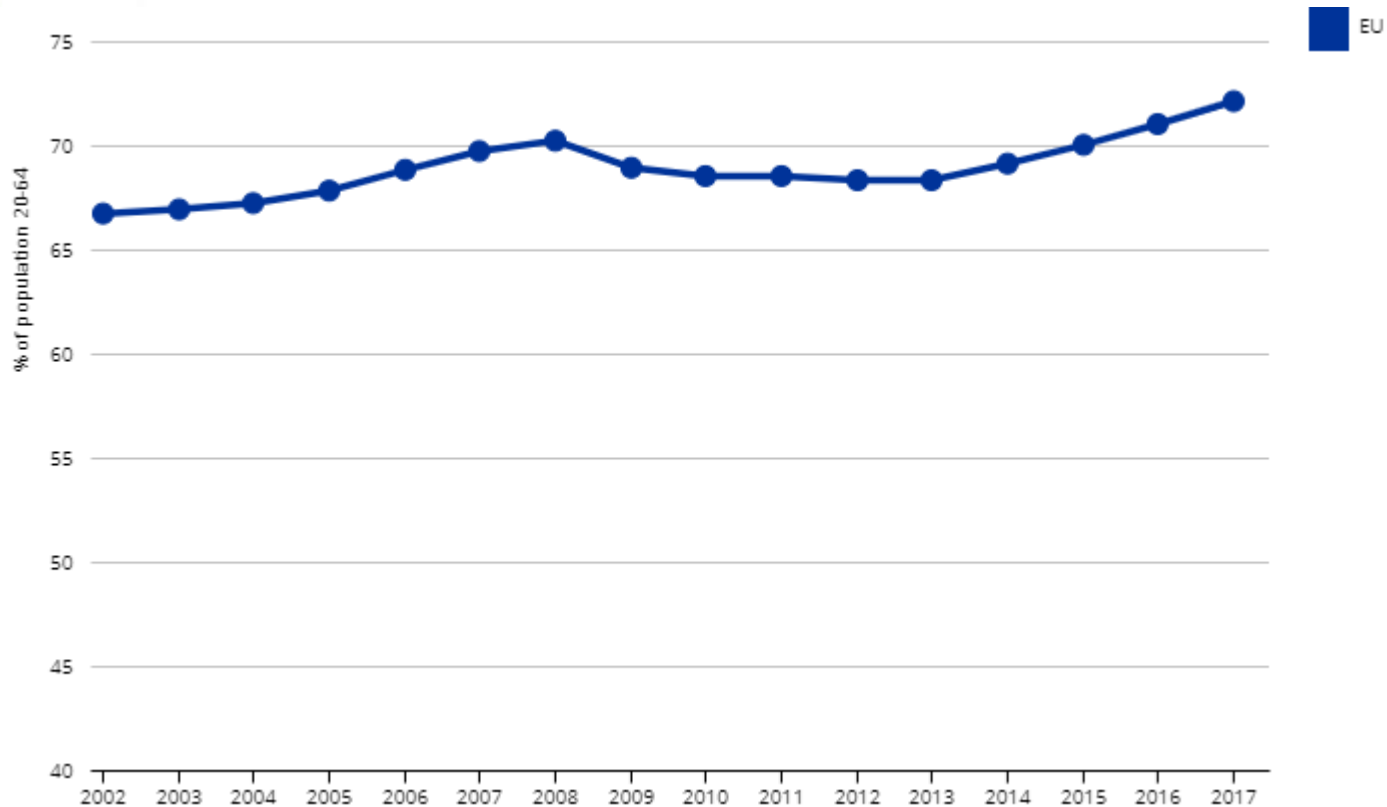
UNEMPLOYMENT

- **Adult (working-age) population**
- Not in the labor force (The economically **INACTIVE**)
- Labor force ($L = E + U$) (The **ACTIVE**) Aged 15-64 (ILO)
 - **Employed (E)**
 - **Unemployed (U)**

$$\text{Unemployment Rate} = \frac{\text{Number of Unemployed}}{\text{Labor Force}} \times 100.$$

$$\text{Labor-Force Participation Rate} = \frac{\text{Labor Force}}{\text{Adult Population}} \times 100.$$

EU – employment rate



https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Employment_statistics

Unemployment

- Unemployed: A persons seeking employment, but cannot find
- Wasted resources
- Incentives
- Zero level is **NOT** a plausible goal

Natural rate of unemployment

- Around which the economy fluctuates
- $L = E + U$
- $u = U/L$
- s : rate of job separation
- f : rate of job findings
- **Steady state** (neither rising nor falling): $fU = sE$

$$u = \frac{s}{s + f}$$

Causes of Unemployment

1. Frictional unemployment → unavoidable

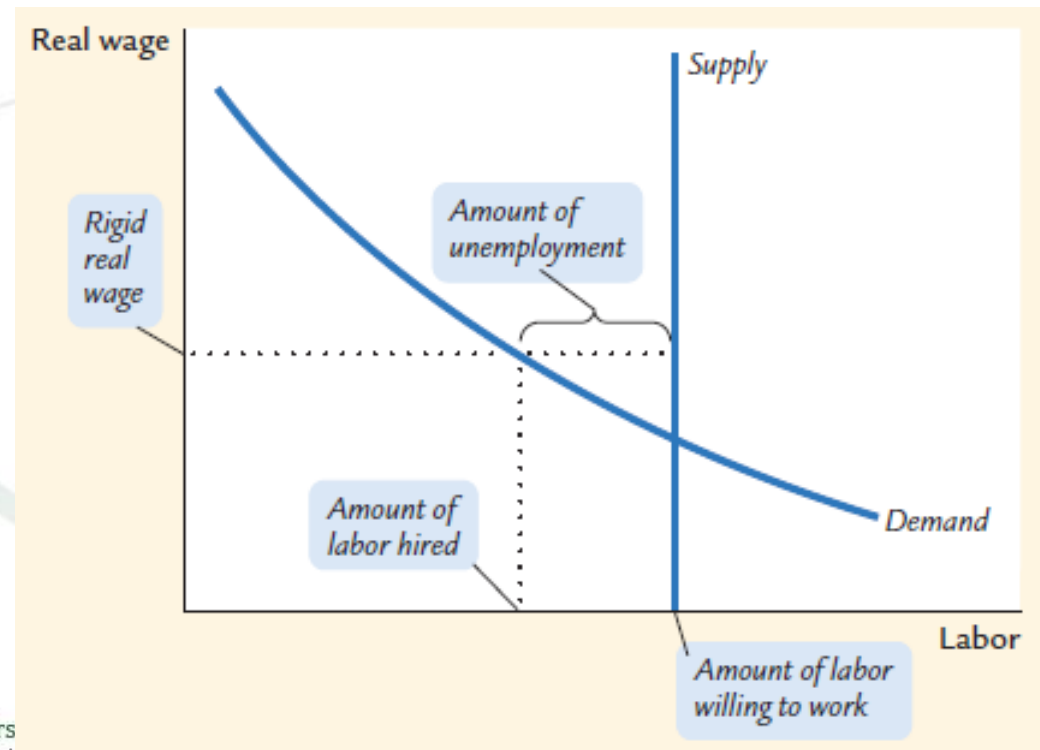
- Searching takes time
- Geographic mobility slow
- Imperfect information
- **Sectoral shift**: change in the composition of demand among industries or regions
- Unemployment insurance

2. Structural Unemployment ← Wage rigidity

- Minimum-Wage Laws
 - Unions (Insiders – Outsiders) – unionization
 - Efficient Wages (Henry Ford)
- **Cyclical unemployment** exists when individuals lose their jobs as a result of a downturn in aggregate demand ([AD](#)).
 - Discouraged workers (p200)
Discouraged worker is counted as Not in the labor force

Labor market – structural unemployment

- **Voluntary unemployment** is defined as a situation when workers choose not to work at the current equilibrium wage rate.
- **Involuntary**



Structure of Unemployment

- **Duration**

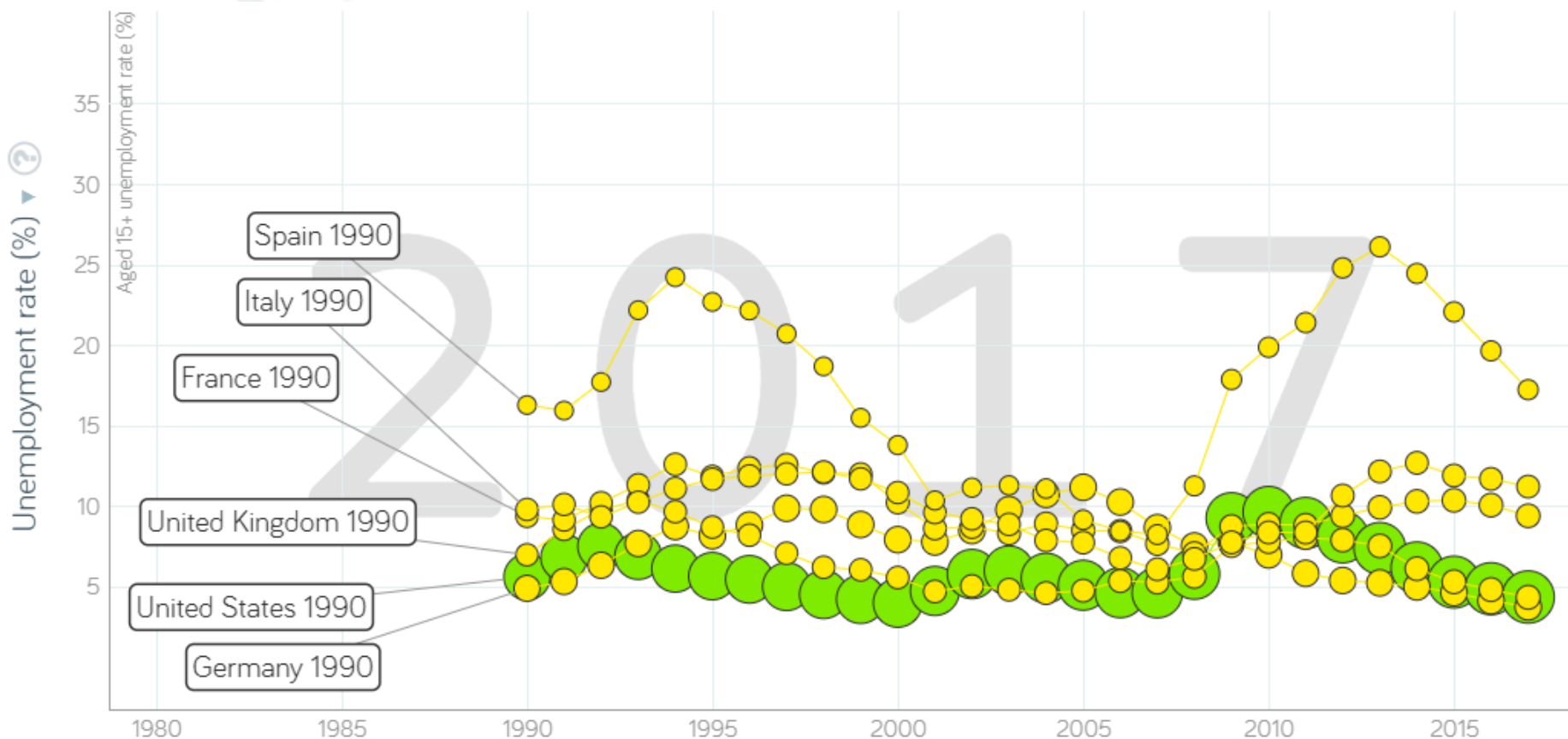
- Long-term unemployment is likely to be structural (p196)

- **Demographic groups**

EUROPE

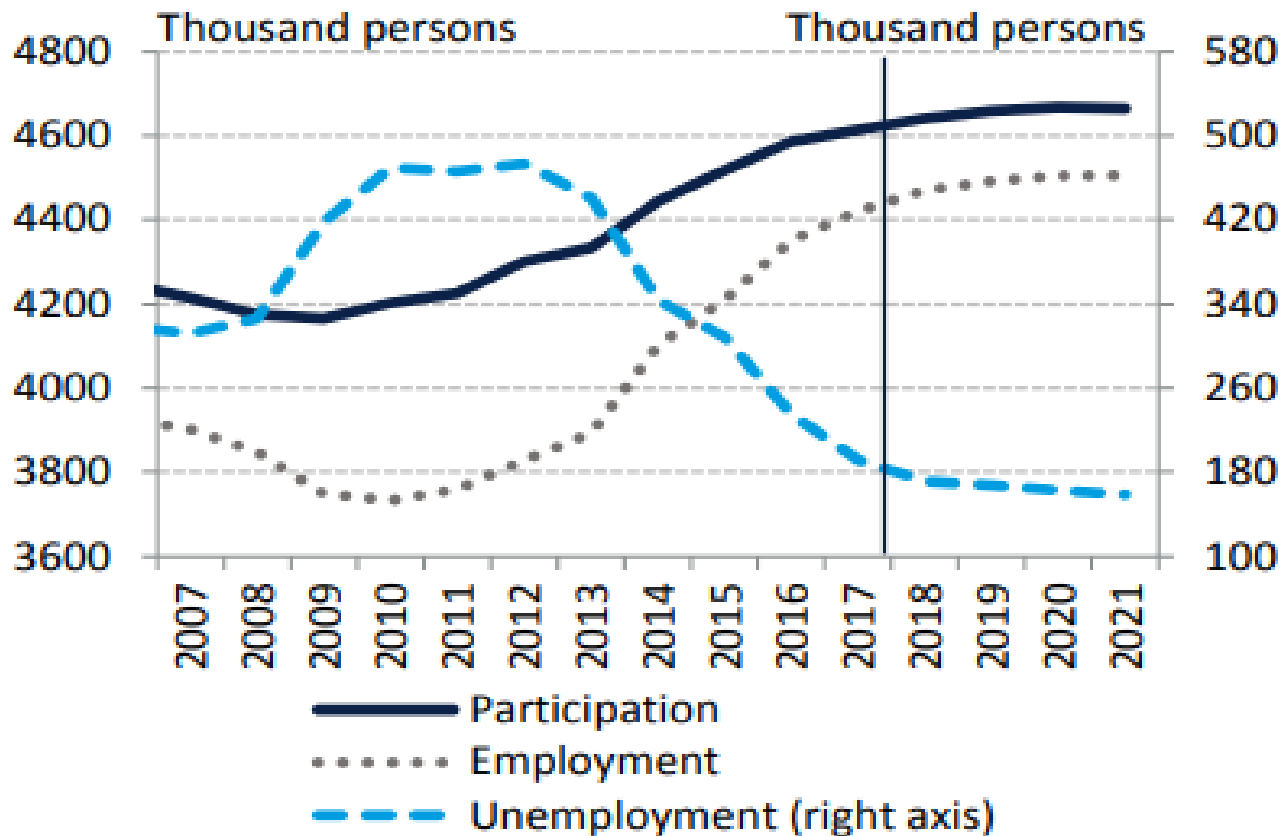
- Euro-sclerosis
- The rise of European Leisure
- Employment-to-population ration is low
- Underground economy
- **U** is high where Replacement rate (the percentage of previous wages that is replaced when a worker loses a job) is high

Euro-sclerosis



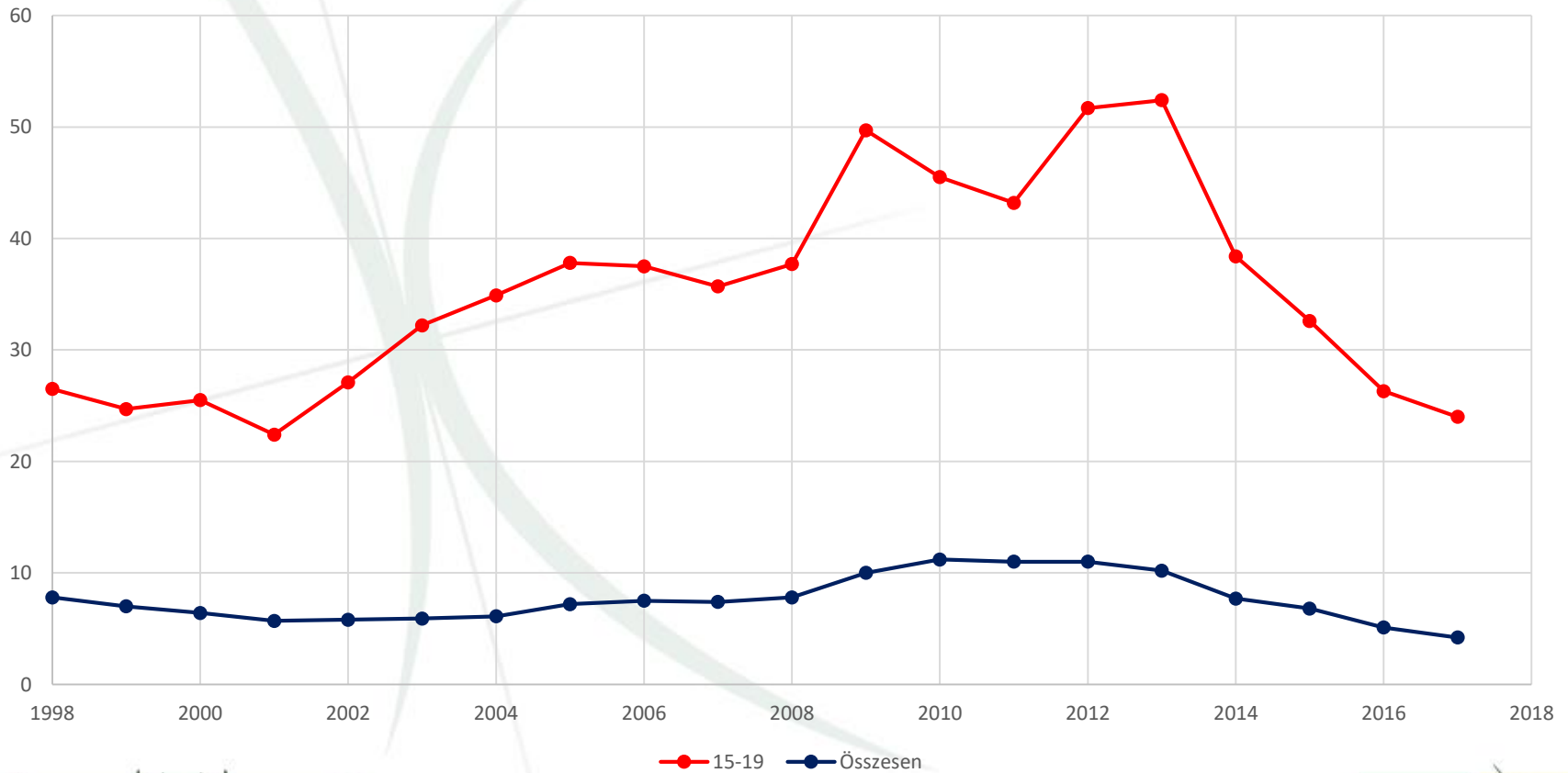
HUNGARY

– Employment, participation, and unemployment in the whole economy –



HUNGARY

Unemployment rate in Hungary 1998-2017



Rate of unemployment

