Who counts as unemployed?

Employed, unemployed or not in the labor force · the two rates · three kinds of unemployment · the natural rate · the business cycle.

1 Three boxes

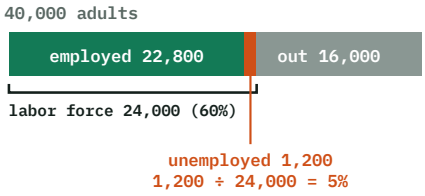
every adult, 16 and over

- EMPLOYED **any paid work** last week, even 1 hour · part-time who want more hours = employed (**underemployed**)
- UNEMPLOYED no job **+** ready to start **+ looked** in the last 4 weeks · all three tests
- NOT IN THE LABOR FORCE no job, not looking: student · retiree · unpaid work · caring at home · **discouraged worker** (wants a job, stopped looking)
- Coralia: Sione (looking) ⇒ unemployed · Nadia (10 h baking) ⇒ employed · Tomás (gave up) ⇒ out · Lena (student) ⇒ out

2 The rate

unemployment rate

- **Labor force** = employed + unemployed · `rate = unemployed ÷ labor force × 100`
- Coralia 2024: 22,800 + 1,200 = **24,000** · 1,200 ÷ 24,000 = **5%** · Mareth: 1,000 ÷ 10,000 = **10%** · Veloa: 400 ÷ 4,000 = **10%**
- Watch out: divide by the **labor force**, not by adults or by the employed · people outside it are not counted



3 Participation

and workers who give up

- `participation = labor force ÷ adults × 100` · Coralia: 24,000 ÷ 40,000 = **60%** · Veloa: 4,000 ÷ 5,000 = **80%**
- Unemployed give up ⇒ leave the labor force ⇒ **rate falls, no new job** · Coralia: 400 of 1,200 give up ⇒ 800 ÷ 23,600 ≈ **3.4%**
- Tarn: 400 ÷ 2,000 = **20%** → 200 give up → 200 ÷ 1,800 ≈ **11%** · employed still 1,600 · participation 67% → **60%**
- ⇒ read the rate **with** the participation rate

4 Three kinds

by cause

- **Frictional** = between jobs, still searching · short · always some (Sione, new graduate)
- **Structural** = skills or places no longer fit the jobs · long · even in good years (Farid, steel welder, fiberglass boats)
- **Cyclical** = whole economy slows, spending falls ⇒ jobs cut · returns with the recovery (Leilani, hotel cleaner, 2021)
- Chain: tourists stop ⇒ fewer rooms sold ⇒ layoffs ⇒ more unemployed = **cyclical**

5 Natural rate

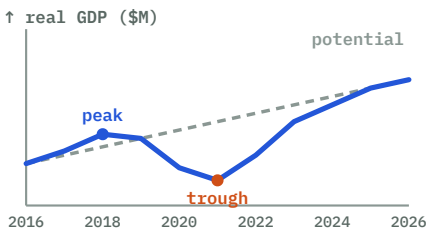
full employment

- `natural rate = frictional + structural` · Coralia: 2% + 2% = **4%** · never **0%**
- **Full employment** = unemployment **at** the natural rate (no cyclical part)
- `cyclical = actual − natural` · 2021: 8% − 4% = **4 points** (percentage points) · 2018 boom: 3.5% − 4% = **−0.5** (negative in a boom) · Mareth: 4% − 5% = −1 · 9% − 5% = +4

6 Business cycle

real GDP around potential

- **Potential output** = real GDP at full employment (the trend) · real GDP = all output, at fixed prices · moves around it
- **Expansion** ↑ → **peak** (2018) → **recession** ↓ → **trough** (2021: $880M, $70M below potential) → expansion
- **Recession** = real GDP falls for months · rule: 2 quarters (3 months each) in a row · ⇒ **cyclical unemployment rises** (Coralia 2021: 8%)



7 A real case

USA, 2007–09

- Great Recession: rate ~**5%** (2007) → ~**10%** (late 2009) · jobs lost in almost every industry at once ⇒ mostly **cyclical**
- Recovery took years ⇒ part maybe **structural** (some jobs never came back)
- Not counted as unemployed: student · retiree · unpaid work · discouraged worker