FACULTY OF JURIDICAL SCIENCES

Lecture-31

UNEMPLOYMENT

The term unemployment refers to a situation when a person who is actively searching for employment is unable to find work. Unemployment is considered to be a key measure of the health of the economy. 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. Many governments offer unemployment insurance to certain unemployed individuals who meet eligibility requirements.

- Unemployment occurs when workers who want to work are unable to find jobs, which lowers economic output.
- High rates of unemployment are a signal of economic distress while extremely low rates of unemployment may signal an overheated economy.
- Unemployment can be classified as frictional, cyclical, structural, or institutional.
- Unemployment data are collected and published by government agencies in a variety of ways.
- Many governments offer unemployed individuals with unemployment insurance as long as they meet certain requirements.

TYPES OF UNEMPLOYMENT

Frictional Unemployment

Frictional unemployment occurs when people voluntarily change jobs within an economy. After a person leaves a company, it naturally takes time to find another job. Similarly, graduates just entering the workforce add to frictional unemployment.

This type of unemployment is usually short-lived. It is also the least problematic from an economic standpoint.

Frictional unemployment is a natural result of the fact that market processes take time and information can be costly. Searching for a new job, recruiting new workers, and matching the right workers to the right jobs all take time and effort, resulting in frictional unemployment.

Cyclical Unemployment

Cyclical unemployment is the variation in the number of unemployed workers over the course of economic upturns and downturns, such as those related to changes in oil prices. Unemployment rises during recessionary periods and declines during periods of economic growth.

Preventing and alleviating cyclical unemployment during recessions is one of the key reasons for the study of economics and the purpose of the various policy tools that governments employ on the downside of business cycles to stimulate the economy.

Structural Unemployment

Structural unemployment comes about through a technological change in the structure of the economy in which labor markets operate. Technological changes, such as the replacement of horse-drawn transport by automobiles or the automation of manufacturing, lead to unemployment among workers displaced from jobs that are no longer needed.

Retraining these workers can be difficult, costly, and time-consuming, and displaced workers often end up either unemployed for extended periods or leaving the labor force entirely.

Institutional Unemployment

Institutional unemployment results from long-term or permanent institutional factors and incentives in the economy. The following can all contribute to institutional unemployment:

- Government policies, such as high minimum wage floors, generous social benefits programs, and restrictive occupational licensing laws
- Labor market phenomena, such as efficiency wages and discriminatory hiring
- Labor market institutions, such as high rates of unionization