

Example of essay on econ ass#2

[Environment](#), [Nature](#)



The natural rate of unemployment refers to level of unemployment existing when the economy is at full employment i. e. the labour market is at equilibrium. Stated otherwise, natural rate of employment is the level of unemployment that exist in healthy economy. At natural rate, the aggregate supply of labour is equal to the aggregate demand for labour. Every worker willing to work at the existing real wage is employed and involuntary unemployment is non-existent. Nonetheless, voluntary unemployment prevails since some workers will remain unemployed as they search for jobs offering higher wages or better working conditions. Structural unemployment is unemployment arising from a mismatch between the job skills of a worker and the jobs available. As a result, there is no demand for the skills possessed by certain segment of the labour force. Technological and structural changes in the economy are the major causes of structural unemployment. Frictional unemployment is unemployment occurring from people moving between jobs, occupations and places. For instance, people may voluntarily migrate from one city to another and may remain unemployed for some time before they settle.

The United States felt the greatest effect of the 2008 financial crisis and the economy is yet to fully recover from the recession. Unemployment rate rose from 4.4% recorded in the first months of 2007 to a high of 10 per cent by October 2009. Despite the economy showing recovery signs, unemployment has only contracted by a mere 1.7%. The natural rate of unemployment stands at 6.6%-the highest recorded in the past few decades. The rise in natural rate of unemployment can be attributed to three factors: job skills and available jobs mismatch; extended unemployment insurance benefits;

and uncertainty about economic conditions. Mismatch increases structural unemployment since the unemployed possess skills that cannot be applied in available jobs. Moreover, an unemployed person may be in a location away from the available job opening (Daly, Hobijn, Sahin and Valletta 3-4).

Extended unemployment benefits increases frictional unemployment since the unemployed are not seriously looking for jobs while others have completely left the labour market. Lastly, uncertainty about economic conditions is another factor that increases frictional unemployment. Firms are not currently hiring because the micro- and macro-economic environment has not stabilized. Consequently, firms are concentrating on enhancing their productivity and output using their current human resource base. The authors do not believe that these factors contribute equally to the permanent increase in natural rate of unemployment. The contribution of mismatch is minimal but the extended unemployment insurance benefits are the principal cause of the increase in the natural rate of unemployment. People are less likely to look for jobs as the government stipends for survival even when they are out of job. The uncertain economic environment has played a role in increasing the natural rate although the situation will stabilize in the long run. Nonetheless, the effects of the last two factors will fall once the unemployment benefits expire and the uncertainties in the economy are resolved (Daly, Hobijn, Sahin and Valletta 4-5).

Works cited:

Bureau of Labour Statistics. Labour force statistics from the current population survey: Employment situation, February 2014. Accessed on 27th February 2014

Daly, Mary C., Bart Hobijn, Aysegul Sahin and Robert G. Valletta. A Search and Matching Approach to Labor Markets: Did the Natural Rate of Unemployment Rise? *Journal of Economic Perspectives*—Volume 26, Number 3—Summer 2012—Pages 3-26.