

The natural rate of unemployment essay samples

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In labor economics, full employment embodies a situation where any available labor resources are efficiently utilized in the economy. It is the level of unemployment just above 0% that is acceptable. At this level, cyclical and demand deficient unemployment do not arise, hence very low unemployment rates. In the US, full employment has not been reached as some labor, or skilled people in the US are still jobless. Currently, unemployment rate in the US stands at 5.9% as at September 2014 (BLS, 1).

Frictional unemployment occurs when labor moves from one sector to another. Workers sometimes change jobs and before one settles in his/her new job, and the worker has to stay without job. This form of unemployment is called frictional unemployment and can occur even in full employment situation. Transitions and searching for new jobs thus creates a temporary unemployment situation. Similarly, structural

Natural rate of unemployment (NROU) therefore, is the lowest sustainable level of unemployment in an economy, keeping inflation at constant level. When the full employment is achieved, inflation rates are kept constant, then that level is considered natural rate of unemployment. This means inflation and unemployment rates are factors determining full employment rates. The natural rate of unemployment in the US at 5.5% and actual rate of unemployment of 5.9% shows that the US economy is almost at full employment as the inflation rate is stable.

The natural rate of unemployment in the US rose significantly from 5% in 2008 Q1 to 6.01% in 2011 Q4. The economy was able to sustain a higher natural rate of unemployment rate in 2011 when unemployment rate was 8.

5%. This can be explained by the fact that inflation does not remain constant when unemployment reduces. It rises and in the long run, the level of unemployment will rise. This pushes natural rate of unemployment up since it is dependent on inflation rates.

In around 2011, the mismatch in the labor market (frictional unemployment) also led to more people being unemployed. This further pushes the natural rate of unemployment up to 5.5% in 2011. The job cuts and restructuring by many big companies during the crisis caused unemployment which also caused further frictional unemployment as people sought new jobs. This contributed higher unemployment rates, and consequently higher natural rate of unemployment.

Another reason for increasing natural rate of unemployment is the increase in money supply into the economy. High supply of money through unemployment benefits pushed prices up, thus resulting to increasing natural rate of unemployment. High money supply causes prices to rise and thus high inflation rates. Since NROU is affected by inflation rates, it consequently increased to 5.5% in 2011 (Daly, et al 6). Unemployment declined after the frictional factors reduced and the economy became more predictable. With predictable economy, prices become stable and thus decline of natural unemployment rates after 2012. The article thus shows that higher unemployment rates and increased money supply led to rise in natural rate of unemployment

Works Cited

BLS (December 2014) News Release: The Employment Situation - November 2014 Retrieved from <http://www.bls.gov/news.release/pdf/empsit.pdf> on <https://assignbuster.com/the-natural-rate-of-unemployment-essay-samples/>

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