

Free natural rate of unemployment essay example

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



Q. 1. Discuss the conceptual and operational definitions of the natural rate of unemployment, and the meaning of the terms structural and frictional unemployment.

Natural rate of unemployment refers to the condition that comes into existence when the economy of a country is at full employment; meaning that the quantity of resources demanded is equal to the quantity of resources supplied. Full employment also means that the labor and resource markets are in equilibrium.

Even when the economy is healthy, some employees are working and some are not working because they are in search of a better job, and until they find a better job they stay unemployed often.

Structural Unemployment

Structural unemployment refers to joblessness that is not caused by absence of demand in the economy but that is caused by the changing patterns in demands of the employers, companies or industries. Changes in demand occur due to advancement in technology and skills. Often companies or factories shift from one place to another, resulting in lay offs.

Frictional Unemployment

Frictional Unemployment refers to the unemployment rate that is always present in the economy. This rate includes individuals who have left their job for some reason like pregnancy, retirement and other ones or are still inefficient to get hired; they may not have enough expertise on the latest technologies. Until they decide to return or get a job, they are considered unemployed.

Q. 2. According to the authors, what three factors have changed since the financial crisis that led to an increase in the natural rate of unemployment? Explain how each of these factors contributes to an increase in either frictional or structural unemployment.

The three primary factors that have changed since the financial crisis that led to an increase in the natural rate of unemployment are:

- Mismatch between the job demands such as location or skill requirement and the characteristics of the unemployed individuals. This has led to the increase of structural unemployment because individuals are inefficient and inconsistent enough to create a gap between what is available in the job market and what is the requirement of employers.
- Easily available unemployment benefits such as unemployment insurance has allowed people to slow down their job hunting process or leave their current unsatisfying jobs to find better ones. Such people are not counted as workers, but as unemployed personnel that increase frictional unemployment.
- The recession has left the minds of employers uncertain about the economic conditions so their main focus is on increasing their productivity without appointing new employees. This has led to the increase in structural unemployment because the employers are suppressing the available jobs, making it difficult for the people to match the job requirements.

Q. 3. Do the authors believe that these factors have caused a permanent increase in the natural rate of unemployment? Do all three factors contribute equally to the rise in the natural rate? Explain.

Yes, it is true that these factors have caused a permanent increase in the

natural rate of unemployment. After the recession, job turnover has slowed down. Even in 2011, the rate of employees leaving their jobs has declined as compare to the rate it was before the recession. On the other hand, the creation of new jobs has also decreased because the employers are not finding the exact matches for their job requirements.

Q. 4. Assuming the authors' preferred estimate of the natural rate is correct, has the U. S. economy achieved full employment equilibrium yet? Explain fully and use appropriate data to support your answer. Be sure to cite the source of your data. (You need to compare the authors' estimate of the natural rate with today's unemployment rate, and draw a conclusion based on that comparison. Look up today's unemployment rate on the website of the Bureau of Labor Statistics website

Even before the Great Recession 2008, America did not reach full employment; however, the rate natural rate of unemployment lied between 2. 2 percent to 2. 6 percent. The authors estimate that the natural rate of unemployment has risen up from 5. 5 to 6. 6 percent now because frictional unemployment has increased, and structural unemployment has gotten higher. The authors also estimate that this natural rate of unemployment will rise in the future because the United States has not designed monetary policies and fiscal stabilization policies in a way that they lower down the natural rate of unemployment. In December 2013, the natural rate of unemployment of United States was 6. 7 percent (Bureau of Labor Statistics) because

- There are still many people who are afraid to give up their employment because they are uncertain about the economic conditions of the country.

- There are lots of discouraged laborers who are not part of the labor pool anymore. They are not searching for jobs anymore or their skills do not meet the job requirements. The Bureau of Labor Statistics counts them as unemployed.

This means that the authors' estimation is completely true.