

Causes of equilibrium and natural unemployment economics essay



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1. 0 Introduction

The causes of being unemployment will greatly vary according to the situation whether the person is working or not. Unemployment can be happen even the person is currently working, yet had given signal to stop working in some company for some reason. Sometimes it can be voluntary with the person's choice to become unemployed.

2. 0 Body

The causes of unemployment can be divided into two major categories which is equilibrium and disequilibrium unemployment. There are five types of unemployment in equilibrium unemployment and three types in disequilibrium unemployment.

3. 0 Equilibrium Unemployment

Equilibrium Unemployment is where can be caused because of people who are economically independent or the wages are too low for thus people don't feel the need to be employed.

3. 1 The causes of Equilibrium/Natural Unemployment

3. 1. 1 Frictional (search) Unemployment

It occurs during people leave their jobs like resign voluntarily, made redundant and also those temporarily unemployed while they are looking for a new job. Sometimes employers may be not offering their job to the first that applied, as they will search for other candidates. This unemployment takes place when both parties do not have the perfect knowledge as they move from one job to another. It is cause of immobility factor which is

geographical and occupational immobility. Geographical immobility is where labour is unable to relocate to the job and occupational immobility is where labour is unable to perform their job because of lack of knowledge, skill or even experience. For example, the unemployed will find a better offer without accepting the first offer.

3. 1. 2 Structural Unemployment

It takes part when all the structure of the economy changes caused by expanding industries experiencing growth when other industries are contracting and also need to reduce their demand for the labour. This unemployment takes part because of the change in the demand pattern, which is caused by a change in taste, fashion or even competition from substitutes such as produced by other domestic industries or from the imported alternatives. For example, there is no more use and fashionable to wear the furs or the decline in the coal mining industry, so then consumers' shift to alternative source of fuel.

3. 1. 3 Technological Unemployment

Takes part when the technological advantages resulted in the labour saving technical progress that allow all the same level of output to be produced with lesser units of labour. It is also often caused by the structural unemployment during the changes of method in production. The current employee will become redundant because of technological unemployment.

3. 1. 4 Regional Unemployment

The structural unemployment which takes part within the particular region will be causing regional unemployment. For example, when the decline in

coal mining industry takes part it makes the decline in the coal mining at the whole region.

3. 1. 5 Seasonal Unemployment

Takes part during the demand for labour changes according to the time period. For example for a fisherman cannot go to sea if there is rainy/monsoon season, a tourist guide will only have work during school holidays or off-peak season and then farmers will be unemployed during non-harvesting or monsoon/rainy months.

4. 0 Disequilibrium Unemployment

Disequilibrium Unemployment is where usually due to the imposition of the minimum wage laws by the government which is means there will be higher demand for jobs then the supply.

4. 1 The Causes of Disequilibrium Unemployment

4. 1. 1 Real Wage Unemployment

Takes part when the trade unions use their monopoly power to demand wage stage higher than the market stage or even when the government sets the national minimum wage stage higher than the market equilibrium. This can be also known as “disequilibrium” unemployment. The wages will be also falls down and could be caused by minimum wages, or the trade unions.

4. 1. 2 Growth in Labour Supply Unemployment

Takes part during the labour supply become higher without any associated increase in the demand for the labour will cause of the equilibrium wage

stage to fall below the average real wage rate. If the real wage rate is “sticky” downwards then the disequilibrium unemployment will take place.

4. 1. 3 Cyclical Unemployment.

This unemployment happens directly from hand in hand with the business cycle. As the GDP becomes higher then the lowest will be the cyclical unemployment at the value of the business cycle and also after that the vice versa is also true during the economy is in the trough level of the business cycle. During this time the firms will be maintain the same levels of employment and also output to build up their stocks, but it will eventually cut back production, resulting in the unemployment. Once the country economy out of the recession, then it starts to recover, then the employment rates will be starts to rise as the gap between real output and the potential output narrows once again. For example in a recession when the aggregate demand falls then there will be a fall in the output, and therefore firms will be employ less workers because they are producing less goods.

5. 0 Conclusion

Other than these causes, there are also other causes too, especially for young graduates. For example when a degree graduate when a job with the basic wage of RM 1500, it will make him/she not satisfied with the wages compared with their studies. So then they will decide to find another job. This makes them become unemployed till they find the right and best suit job for them. As the causes of being unemployed is higher people and government should be more alert and they also should know the disadvantages of being unemployed.