

# Example of the natural rate of unemployment essay

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According to Economists, this is a state that occurs when the whole of the economy's resources is utilized in the production of output. In real concept, the economy is said to reach full employment when the rate of unemployment is approximately 5 to 5 1/2 percent and when the rate of capacity utilization is approximately 85%. In principle, full employment is achieved when all resources (capital, land, entrepreneurship and labor) are utilized to produce goods and services. The economy gains from the full employment because goods are produced from the resources and these goods satisfy the needs and wants that reduces the scarcity problem. Without resources being employed, then they are not producing, and less satisfaction achieved. In most cases, the important resource markets are in a state of equilibrium as the quantities demanded are equal to the quantities supplied. In other words, the number of workers available matches the number of jobs available in the labor market. The demand and supply graph indicates production possibility frontier, which is constructed under the assumption that all resources available get engaged in the production of two goods.

The U. S economy today is in an adverse employment equilibrium. The output is depressed at \$985 billion, which is approximately 5.9% below full potential. The US economy has been depressed by at least 5%, far below the potential in the past four years. The depression has resulted in the economy cumulatively forging a national income of \$4.5 trillion to date. The economy's potential output, of the US economy at full employment arises naturally with increasing productivity and population growth. The Congressional Budget Office estimates will over the next decade average 2.

1%. Therefore, making progress towards full employment requires faster growth than the innate potential rise in the economy (Thomas, 2011). Full employment is, equated to natural unemployment that defines the amount of unemployment that is consistent with a growing and expanding economy that has no inflation. Cyclical unemployment occurs when workers lose jobs in the downturns of a business cycle. The workers are then re-hired when the economy re-enters the expansion phase of the business cycle. This concept is commonly considered as the combination of frictional and structural unemployment. Evidence from the past indicates a 5 to 5 1/2 % unemployment rate meets the conditions. If the unemployment rate drops further to below 5 to 5 1/2 % inflation rate increases. However, the increase in US rate of unemployment associated with 2007-2009 recession is unprecedented. The rate of unemployment rose by 5.7% from a low of 4.4% in the late 2006 and 2007 to 10.1% in October 2009. These projected rates exceed the 5.2% net increase between 1979 to 1982. The pattern of elevated unemployment brings out the possibility that in addition to usual cyclical increase, an elevated corresponding and the structural higher rate may as well be contributing.

The Federal Reserve Bank of St Louis data indicates a 5.0% rate of unemployment from early 2006 to quarter 4 of the year 2007, which is a constant rate coming from 2000. The rate, took an increased turn off 5.8% in the year 2011 quarter 4 to a high of 6.0 in the late 2011. The 2014 rates have maintained at 5.8%, a constant high unemployment rate of 5.8% in quarter one and quarter two. This rate is further projected to indicate a 0.1% drop in quarter three of the year 2014. Braure (2007) illustrates that the

natural employment rate arises from all sources, but not from fluctuations in demand associated with the business cycle. Recent publications by the Bureau of Labor Statistics in September indicates that the unemployment rate dropped by 0.2% point to 5.9%. The unemployed person decreased by 329000 to 9.3 million. An understanding of the structural pattern of the natural rate of unemployment in 2007 to 2012 is critical. The US unemployment rate has remained high since 2007-2009 recessions. This rate has led some observer to conclude that it is not cyclical, but rather structural factors to blame. Furthermore, a big contrast to the high rate of labor market recoveries the post world war II recession, as early as 2012 the rate of unemployment had still decreased by only 1.7%. This growth pattern has been laid down to factors such as extended unemployment benefits, uncertainty about overall economic conditions and labor market mismatch (Thomas, 2011).

In conclusion, though there is a high rise in the rate of unemployment to an average degree over the last few years, much slack remains in the labor market. These slacks are likely to persist for several years beyond 2012. However, most of the increase in the natural rates appears to be transitory. For example, the economy experienced a reduction in the number of goods and services transacted as compared to the compositional changes that involved employee reallocation across industries. The number of composition of the unemployed and the impediments of unemployed workers moving into new firms is some few factors that have increased the unemployment rate over the years. The expectations that have cyclical recovery proceeds in the

labor market; the natural rate will fall back to a closer value of pre-recession level.

## **References**

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