Unemployment and inflation in the u.s

ASSIGN BUSTER

Unemployment rate is known to be one of the most vital economic indicators to represent a particular country’s economic performance usually formulated by the Bureau of Labour Statistics (BLS). While looking at United States unemployment rate, it has been ranging from 4. 7 till 10. 1 percent. Economists realize that unemployment is a serious problem, as it not only withdraws consumption patterns but also occurs at an opportunity cost of the goods and services that could have been produced. In addition, persistent unemployment can result in a pool of psychological and social welfare costs such as; suicides, depression, divorces etc.

In order to understand how unemployment has affected the U. S economy, it is essential to know how unemployment is measured initially and what causes it.

Measuring Unemployment

Firstly, a monthly Employment Report is generated by the U. S government which is constituted of two surveys. The first being the Establishment Report and the second being the Current Population Survey. The Establishment Report inquires how many workers are being paid regularly from a sample of employers while the CPS, inquires a pool of 60, 000 households about any of them trying to seek work or are working currently. When the result is finalized, it helps the BLS to analyse how many Americans are employed and how many are not. It is categorized into six different measures namely;

1. When a person is out of job for 15 weeks or more.
2. When a worker has finished a temporary job or has been sacked.
3. Formulating official unemployment rate by evaluating the proportion of the labour force from the total unemployed.

4. Measuring the total unemployment rate by adding up (3) and the portion of workers who have given up looking for a job (discouraged).
5. Summing up the answers to (4) and adding a portion of workers who are interested to work but have not started looking for it.
6. Summation of all the above results from 3-5 onwards with those workers who are keen to work full-time but cannot.

Reasons of Unemployment

In general economics, unemployment can be reasoned to occur for a number of economic factors. However, while generalizing it only to the U. S economy, unemployment is caused by either frictional, structural or cyclical reasons.

Frictional Unemployment: Such type of unemployment is generated from the transitions in the workforce that are often caused when workers try to shift in between jobs in order to get a higher salary or because they gave shifted to a particular location. It can also be caused when employers hold back themselves from appointing of sacking workers for in economic reasons.
Structural Unemployment: When a mismatch is created due to geographical, demographical or industrial reasons; structural unemployment is caused. Usually, it can be caused in areas where there is a lot of technical advancement but the workers lack the technical expertise to carry out their jobs. Such progress in technology is usually a great cost to the economy. In the U. S, the newspaper industry has faced a loss of jobs for reporters, content editors and so on as the online world has taken over the industry in the form of web-based advertising.

Cyclical Unemployment: Keynesian economics states that cyclical unemployment is the effect of booms in the business cycles. Moreover,

recession trends lead to lesser workers being recruited thus, rising the unemployment rate. Cyclical unemployment occurs when there is not enough demand for goods and services in the economy at large to provide jobs for everyone who wants one. Basically, it is triggered when consumers have less money at hand to spend money on commodities. This in turn causes companies to lay off their workers due to less demand.

Measures to curb the unemployment rate

After a specific range, the federal U. S government steps into the scene and tries to create jobs in order to avoid the unemployment rate to persist over a long period of time. The government usually does this via the monetary policy of fiscal policy approach.

Monetary Policy: The Federal Reserve Bank of U. S is responsible for controlling the monetary policy. The bank is an independent entity that has the key to manage the money supply within the country. Two tools are used accordingly to the economic situation. The first tool adopted is to lower the interest rates. In this way, it is less costly for banks and companies to borrow money as the cost of borrowing is lowered. Governments do this with an aim to stimulate investment spending and expansion of businesses. This results in increased employment and economic vitality. The second tool is to increase the money available to households and businesses. In this way, more money will increase employment and stimulate business expansion.

Fiscal Policy: In case the expansionary monetary policy is not enough to curb the unemployment effect, various fiscal policies are adopted to fight the high

rates of unemployment. Governments can adopt many techniques to do this. They can:

- Reduce taxes for encouraging households and businesses to spend.
- Increase government spending to increase employment rates.
- Provision of unemployment benefits in order to help them with their basic needs.
- Recruit workers who have the skills to build things like mass transit systems and who have the skills to cater services such as upgrading and repairing complex infrastructures. (Debt. org, n. d.)

Inflation is generally termed as the persistent rise in the general price level of good and services. It can be caused due to three main reasons in the U. S:

Demand Pull Inflation: This type of inflation is mainly caused when too much demand is chasing too few goods. A progressing economy just like the U. S; can result in inflation as people start consuming more and more. Growing economies like the U. S can face persistent inflation as people spend more and are optimistic about the future. This can trigger economic growth but after a certain time can be dangerous.

Fiscal policies that are discretionary in nature can instigates demand-pull inflation. The government does this by increasing their federal spending and decreasing tax rates which in turn causes an up rise in the demand schedule. For instance, Apple Inc. charges high prices for its products.

Cost-Push Inflation: Such type of inflation occurs mainly due to high costs chasing prices. It is caused when supply is low. Wage inflation can trigger cost-push inflation as it is instigated by a good formed labor union.

Moreover, when natural calamities occur they can also cause such type of inflation as infrastructure is destroyed such as that what happened in Hurricane Katrina in the U. S. For instance, excessive fishing in the U. S causes a reduction in supply for seafood, thus increasing its price. Another reason can also be flexibility of U. S exchange rate that leads to import-push inflation.

Money-Supply Inflation: Excess expansion of money supply can also lead to inflation. Money in general means both cash and credit. Whenever U. S households find loan cheap, there will be a lot of money and too few goods thus in return; increasing inflation.

Monetary & Fiscal Policies in U. S

Monetary policy is referred to the deliberate manipulation of national currency which is set by the U. S Federal Reserve. Monetary policy is a tool which is used to control the value of currency; in this case the dollar, in the open market.

In the U. S a contractionary monetary policy can be of great use to stabilize the price level and curb the inflation rate. The main aim of the policy is to decrease the level of inflation in the level. The U. S government does this by decreasing government spending or by increasing interest rates. This results in a stable economy. Furthermore; this affects the consumption schedule which equalizes the price level.

However, the same policy has many negative side effects to it. Contractionary monetary policy causes production to slow down as it gets tightened over the years. Businesses might shut down their production which

reduces the demand of commodities thus creating a recession. In addition to this, unemployment rises as firms hire less workers with less production. (Monetary Policy)

On the other hand Fiscal Policy is referred to the adjustment of consuming & spending patterns including that of tax. (Explain Fiscal Policy)

The main benefits of this policy that it caters is that once implied it immediately takes it role in the economy. Secondly, in case the U. S economy is in recession, a fiscal policy can be implemented to trigger a rise in aggregate demand. Thirdly, it is specific in nature which means that it defines its role in advance. For instance, federal spending on either schools, infrastructure or medical facilities.

However, it can have its own cons such as being inflexible. Social and political constraints can cause fiscal policies to lag behind in its implementation period. (Fiscal Policies Pros & Cons)

Economic Growth Reforms in the U. S

Economic growth refers to the amount of prosperity a country enjoys over a period of time. It is an indicator of the growth in the economy. For instance, in the U. S, the economic growth rate is around 2 to 5 percent. As the U. S is a fast paced economy, such rates persist over long periods of time and are seen pretty well. (Economic Growth)

Many policies and reforms have been formed to promote economic growth. One such reform is the *President Obama Strategy for American Innovation.* The main idea of this reform is the provision of a system that caters to

ensure that the American economy prospers. Moreover, this reform also has the aim to generate quality jobs, better infrastructure for medical facilities and improved areas for living. (Innovation Strategy, n. d.)

Another policy to promote growth is the Economic Development Administration which helps the economy by providing jobs and technical help to those areas where there is an immense need of aid. In such way, employment is created which ensures that there is a stable level of economic growth. (Eco1)

Balance of Payments & the Exchange Rate of United States

The Balance of Payment (BoP) is referred to a numerical and statistical summary of the proceedings that take place within the economy. The proceedings can be either, goods that are tangible, services, income and foreign debt. (Mosbacher, Michael R. Darby, Allan H. Young,, & Carol S. Carson)

As the current and capital accounts accumulate to result in an aggregate account, both the deficits in the current and capital accounts are compensated with their respective surpluses. In the U. S, a current account deficit when the prices, GNP, interest rates and the exchange rates are high.

For instance, in the U. S, if there is an increase in tariffs, there will be less import buying which will result in a current account deficit. However, such changes only occur when other factors contributing towards the Bop reduce the capital account surplus. If this is not the case, there will be a reduction in foreign currency’s demand and there will be an appreciation in the dollar value. As a result, the tariff which was initially increased will be offset as

exports increase and imports are reduced. In economics, exchange rates are known as the representation of one currency in terms of another. This means that $1 will be values as 8 pesos in Mexico. If there is an appreciation in the value of dollar, there will be an increase in the export prices and a decrease in import prices as foreign goods are now cheaper for the U. S. There is a current account deficit since, the net export function is negative in nature. However, if there is a depreciation in the value of dollar, a vice versa situation will occur where import prices rise. Exports become cheaper for foreign consumers which in turn causes the current account deficit to be lessened. (Balance of Payments) & (Exchange Rates)

Paying off the Foreign Debt – Unites States

An economy experiences an equilibrium in its budgets when there federal revenues and spending equal each other. Whenever there is excess of revenues in comparison to spending, there is a surplus and vice versa. Which is why, it is essential for the government to borrow money in order to fill in this deficit in the latter case. Therefore, a federal debt is where money is being lent by foreign countries and that by the public of its own country to facilitate areas where financial assistance is needed. When the Treasury of the U. S government borrows money, the amounts are reported to the federal accounts. Thus, whenever there is a surplus in the trust fund accounts, the U. S Treasury utilizes this surplus to find for various kinds of government spending. Moreover, around a third quarter of the debt is constituted by the federal accounts, whereas, two-third quarters are owned by general masses. (Borrowing and the Federal Debt)

Bibliography

Balance of Payments. (n. d.). Retrieved from EcoLib. org: http://www. econlib. org/library/Enc/BalanceofPayments. htm

Borrowing and the Federal Debt. (n. d.). Retrieved from NationalPriorities. org: https://www. nationalpriorities. org/budget-basics/federal-budget-101/borrowing-and-federal-debt/

Debt. org . (n. d.). Retrieved from Unemployment in the United States: http://www. debt. org/jobs/unemployment/united-states/

Economic Growth. (n. d.). Retrieved from Investopedia. com: http://www. investopedia. com/terms/e/economicgrowthrate. asp

Exchange Rates. (n. d.). Retrieved from Colorado. edu: http://www. colorado. edu/economics/courses/econ2020/section12/section12. html

Explain Fiscal Policy. (n. d.). Retrieved from Investopedia. com: http://www. investopedia. com/articles/04/051904. asp

Fiscal Policies Pros & Cons. (n. d.). Retrieved from Yahoo Answers. com: https://answers. yahoo. com/question/index? qid= 20080202033549AAb3qM

Innovation Strategy . (n. d.). Retrieved from Whitehouse. gov: https://www. whitehouse. gov/innovation/strategy

Monetary Policy. (n. d.). Retrieved from SmallBusiness. com: http://smallbusiness. chron. com/pros-cons-contractionary-monetary-policy-3871. html

Mosbacher, R. A., Michael R. Darby, Allan H. Young,, & Carol S. Carson. (n. d.). USA – Balance of Payments.

Smallbussiness. com. (n. d.). Retrieved from Monetary Policy: http://smallbusiness. chron. com/explain-monetary-policy-1504. html