

Example of the rate of unemployment essay

[Business](#), [Employee](#)



The natural rate of unemployment can be defined as the rate of unemployment prevailing when the aggregate labor supply is in balance with the demand for labor in the market. At this level of unemployment, all potential employees willing to work at prevailing real wage rates would have been employed, hence there is no involuntary unemployment. This natural unemployment consists of structural and frictional unemployment.

Frictional unemployment on the other hand can be defined as the unemployment that exists in an economy when workers are in the process of transiting from one job to another. An employee may lose his or her job or may decide to stop working for a particular employer. This employee would be said to be frictionally unemployed during the time spent searching for a new employment position.

Structural unemployment exists when there is a mismatch between the skills available in the labor market and the labor demands by employers. For instance owing to advancement in technology in production, some skills possessed by employees may be rendered obsolete forcing them to stay unemployed because their skills are not useful in the labor market. Structural unemployment may also result from mismatch between the geographical location of the potential employee and the employer. In such a situation the person would find it impractical to apply for the position because of a huge geographical distance between the employee and the employer.

The financial crisis increased in the natural rate of unemployment in the US by creating a mismatch between the characteristics of the potential employees and the available employment opportunities. The skills possessed by potential employees were not useful in the market while the skills needed

by employers could not be accessed from employees. The geographical distance between employees and their potential employers also increased the rate of unemployment. This change has affected structural unemployment.

The availability of extended unemployment insurance benefits has also increased the rate of natural unemployment. People who would qualify for jobs in the market would choose not to intensively search for jobs with the main objective of receiving such benefits. Moreover, other employees would choose to leave the workforce in order to qualify for these benefits by claiming to be searching for employment. This led to an increase natural unemployment affecting frictional unemployment.

The financial crisis also created uncertainty about economic conditions of the country thus forcing employers to increase their level of productivity and output without employing additional labor. The choice by employers to increase their productivity without a corresponding increase in the workforce also led to an increase in the natural rate of unemployment, affecting both frictional and structural unemployment.

Mary et al believe that these factors will not cause a permanent increase in the natural rate of unemployment (5). An increase in the mismatch has had a limited contribution towards an increase in the natural rate of unemployment. Uncertainty about economic conditions has significantly contributed towards an increase in the natural rate of unemployment but the factor that has had the largest impact the availability of extended unemployment insurance benefits. An increase in the mismatch is permanent while uncertainty about economic conditions and the availability

of extended unemployment benefits are transitory because they are dependent on the people's perception of economic conditions which are bound to change with time.

Full employment is a state of an economy in which people who are willing and able to work can find jobs at prevailing wage rates. The authors estimate the current rate of natural unemployment at 6%. According to the Bureau of Labor Statistics website the natural unemployment rate is 6.3%. This means that the US has not attained full employment because the supply of labor is higher than its demand.

Bibliography

Mary C. Daly, Bart Hobijn, Aysegul Sahin, and Robert G. Valletta " A Search and Matching Approach to Labor Markets: Did the Natural Rate of Unemployment Rise? Journal of Economic Perspectives Perspectives— Volume 26, Number 3—Summer 2012—Pages 3-26

The Bureau of Statistics website: <http://www.bls.gov/cps/lfcharacteristics.htm#unemp>