How does the labor market work?

* Hypothesis 1: /
  - just like any other market
  - micro 101 in basic

Chap. 7 part 2

explain
full employment

Hypothesis 2: /

Chap. 7 part 2

- unemployment is universal
- labor markets are different
- explain unemployment
- Employment and Unemployment

Is it a contradiction?

At $E$, $ur = 0$

- With perfect competition there can be no unemployment
description of unemployment

"unemployment"/

definition/

without a job but looking for a job

decomposition/

by education

by type

by gender

by education

by region

by industry

by occupation

by race

by age

WWW. econompic.com
Unemployment and Full Employment

• There are three types of unemployment:

1) Frictional \(< 5 \text{ weeks}\)

2) Structural \(27 \text{ weeks} + \)

3) Cyclical \(5 - 26 \text{ weeks}\)

\((1 + 2) = \text{"natural unemployment"}\)
"natural" unemployment

The natural rate of unemployment is the unemployment rate when the economy is at full employment. There is no cyclical unemployment, all unemployment is frictional and structural.
Unemployment by Duration

- Less than 5 weeks
- 5-14 weeks
- 15-26 weeks
- 27 weeks and over

Percentage of unemployment:
- Business cycle peak: 50
- Business cycle trough: 40

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this chapter: especially part 2

Micro view

Define specific circumstences

Answer to

Naturally unemployment

What causes?

Ch 4.5.10 11 12 13

Macro view

Cyclical: if the consumer demand is high, it affects all sectors

Cyclical unemployment
- Is the U.R. zero?
- What explains the trend (the natural rate of unemployment)?
- What explains deviations from trend (the cyclical rate of unemployment)?
Explaining Unemployment

- Job Rationing

- The practice of paying employed people a wage that creates an excess supply of labor and a shortage of jobs and increases the natural rate of unemployment.
- Economics

- how do markets work?
  - prices adjust so as to clear the market
  \[ q^0 = q^1 \]

in Econ 101

- how does the labor market work?
  - it is demand constrained, because of job searching

not in Econ 101
A demand constrained labor market

OA is the profit maximizing real wage

Workers are willing to accept a lower wage

Employers have no incentive to do so

If W/P equals OA then structural unemployment levels BC. Jobs are rationed.
2) Insider interest (union/management/legislature)

3) The minimum wage

1) Efficiency wages

Three reasons why jobs might be rationed are:

- Job Rationing

Explaining Unemployment