Discussion Group 1:

Discussion Topic: “Involuntarily Unemployed or Just Plain Stubborn?”

Assigned Discussion Group 1 Moderators: Daniel Alexander (daniela); Nathan Miller (nathan89); Tamanna Rimi (tamanna); Jennifer West (jwest)

Discussion Date: Thursday, Nov 1, 2012, 11:00-12:20pm (first 80 minutes of class)

Relevant Syllabus Sections: Section II (Dynamic IS-LM Modeling with Sticky vs. Flexible Prices) and Section IV (Policy Implications of Rational Expectations)

Specific Responsibilities of Discussion Group Moderators:
The moderators should prepare a clear concise hand-out for distribution to the class on the discussion date. The hand-out should provide suggested answers to each of the discussion questions given below (to the extent that the moderators believe that definite answers can be provided) as well as pointing out any aspects of these discussion questions that the moderators conclude are controversial, hence difficult to answer in a definite way. The hand-out should also be distributed to the class using the class email list macro502@iastate.edu at least one day prior to the discussion date.

The moderators should come to class on the discussion date prepared to lead a class discussion on their hand-out (hence on the discussion questions below). The moderators should attempt to ensure the participation of all students in the discussion by (if necessary) directly calling on students to express their ideas.

Some Suggestions: Discussion questions should be considered one by one rather than all at once. All class participants should be encouraged (and directly called upon if necessary) to comment on each question as addressed. Preparation of some transparencies/ppt slides could help to focus the discussion. Watch the time so each question can be addressed.

Evaluation of Discussion Group Moderators:
The moderators’ performance (as a group) will be evaluated on the basis of their hand-out and in-class discussion moderation. Each moderator should actively participate in both aspects. The judgments of all class participants will be taken into account in this evaluation through an anonymous ballot. The points earned by the moderators (up to a maximum of 20) will be included in the determination of each moderator’s overall course score.

Evaluation of Other Class Participants:
The performance of each class participant other than the moderators will be evaluated on the basis of the quality of their contribution to the in-class discussion. Assigned points for discussion participation (DP) will be either 0 (absent from class), 2 (no DP), 4 (minimal DP), 6 (satisfactory DP), 8 (good DP), or 10 (excellent DP). These assigned points will be included in each class participant’s overall course score.
DISCUSSION FOCUS: Lucas Vs. Blinder on Involuntary Unemployment

Summary of the Lucas (New Classical) View of Involuntary Unemployment:

Consider, first, the case of a person who has just been fired from the workforce of a company. From a larger perspective, should not the person’s initial decision to work for the company be viewed as an explicit or implicit contractual agreement to engage in a lottery (gamble) in which “being fired” is one possible consequence with a particular associated probability? And, if someone has voluntarily agreed to engage in a lottery, is he or she entitled to complain if the lottery is subsequently lost rather than won, in the sense that a bad outcome (e.g., being fired) obtains? Second, what about potential workers who would like to engage in a lottery (join the workforce of a particular company) under the company’s current rules (wage rate, working conditions, financial prospects, etc.) but are denied entry, even though others of similar capabilities are allowed to enter? If they then refuse to play other lotteries (accept a job) that they view as being inferior to the lottery that has refused them entry, are they truly “involuntarily” unemployed? Reflecting upon these points, must we not conclude that all people of working age are “involuntarily unemployed” in the sense that they would like better working conditions than they have? Consequently, is not “involuntary unemployment” an empty concept, useless for macroeconomic policy purposes? Does it not therefore make much more sense to focus on the employment level rather than the poorly defined concept of an “unemployment” level? And does it not make much more sense to focus macroeconomic policy efforts on ways of improving ex ante the structure of the work lotteries that people face rather than trying to pick up the pieces ex post by worrying about those who have experienced bad outcomes in these lotteries?

Summary of the Blinder (New Keynesian) View of Involuntary Unemployment:

In contrast to the pristine theoretical models of rational expectations theorists such as Robert E. Lucas, people in the real-world are forced to engage in work lotteries for which accurate information is not available and for which the main source of uncertainty is not the calculable risk of some exogenous shock but the subjective uncertainty arising from the activities of other people. Moreover, these lotteries cannot be presumed to be “fair” since entry into the lotteries is at least partly conditioned on eligibility requirements that are not under the control of people, e.g., their innate skill levels, and their educational attainments constrained by family income, race, and gender. Numerous socio-economic studies have shown the enormous costs that unemployment imposes on the unemployed, both pecuniary (lost wages) and non-pecuniary (e.g., loss of sense of worth). Also, numerous formal econometric studies reject the hypothesis of a continuously clearing labor market, in which the only non-employed adults are those who are not working due to frictional reasons (e.g., job search, job training) or structural reasons (e.g., lack of appropriate skills, bad work habits). Consequently, there is ample reason for any government attempting to ensure the social welfare of its citizens to be concerned with the level of unemployment, to intervene actively in the economy to keep the level of unemployment as low as possible, and to help out unemployed people ex post who become unemployed through no fault of their own.
SPECIFIC DISCUSSION QUESTIONS TO BE ADDRESSED:

Basic Background References:


  NOTE: Lucas won the 1995 “Nobel Prize in Economics,” more correctly called the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel.


NOTE: All students should prepare for this discussion by studying the reference materials above and by thinking about the discussion questions below.

Q1: What key attributes characterize the people who are currently counted as “unemployed” in the U.S., based on household survey data? In particular, can they be distinguished from “employed” people by geographical location, educational background, age, gender, income status, and/or other possible attributes?

Q2: Do you believe that Lucas is right when he concludes that “involuntary unemployment” is an empty and useless macroeconomic concept? Or that Blinder is right when he argues that “involuntary unemployment” has a clear and compelling macroeconomic meaning? Justify your assertions carefully.

Q3: Whose policy position on the proper role of government vis-a-vis employment and unemployment do you believe is more compelling, Lucas’s or Blinder’s? Justify your assertions carefully.

Q4: Over the past four years, what (if anything) do you believe should have been done differently by the U.S. Federal Government to reduce the U.S. unemployment rate? Does your Q4 response support Lucas, Blinder, or neither? Be specific but also concise (two pages or less).

Q5: Over the next year, what (if anything) do you believe should be done by the U.S. Federal Government to reduce the U.S. unemployment rate? Does your Q5 response support Lucas, Blinder, or neither? Be specific but also concise (two pages or less).