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Econedlink Fundamentals of
A.P. Economics Webinar
Series

Econedlink AP
Macroeconomics Collection

Econedlink “Preparing for the
A.P. Exam

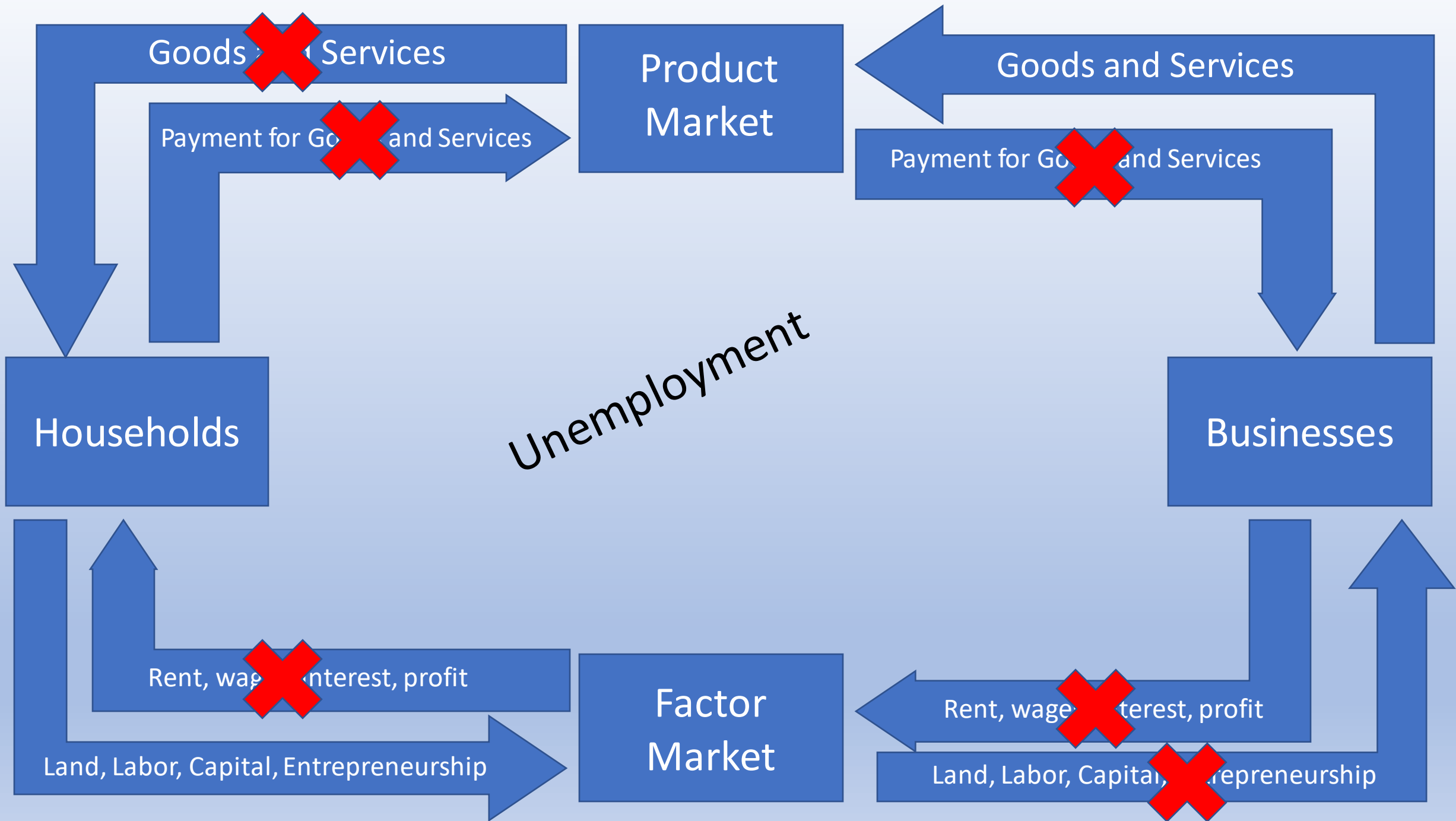
Econedlink AP
Microeconomics Collection

Unemployment

Why?

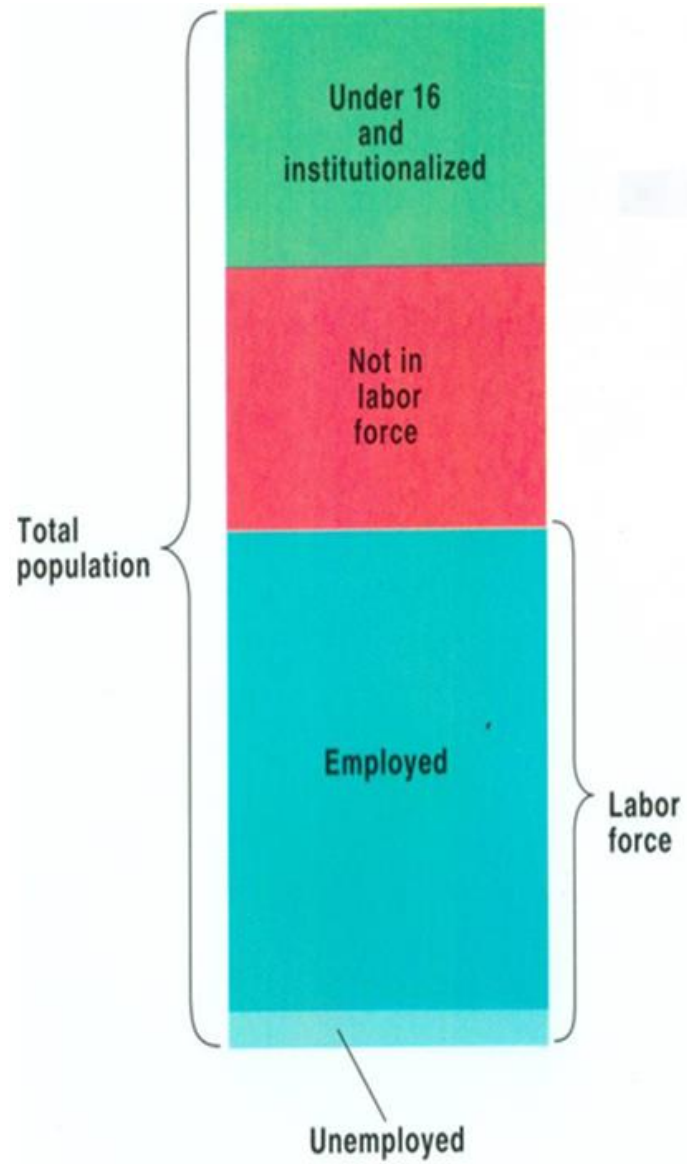
- Macroeconomics is all about two main “problems” in an economy. Unemployment and inflation.
- To fully understand the economy, you must know what unemployment is, how to calculate it and how to correct for it.

If you go back to the simple circular flow model that shows a closed, private economy, you can show students why understanding unemployment is important.



AP Macro CED

Current Unemployment Statistics
from [BLS.gov/CPS/](https://www.bls.gov/CPS/)



Labor Force: Employed + Unemployed

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Employed: persons who did any work for pay or profit during the survey reference week; persons who did at least 15 hours of unpaid work in a family-operated enterprise; and persons who were temporarily absent from their regular jobs because of illness, vacation, bad weather, industrial dispute, or various personal reasons.

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Labor Force: Employed and Unemployed

Unemployed: Persons are classified as unemployed if they **do not have a job**, have actively looked for work in the prior 4 weeks, and are currently available for work. Persons who were not working and were waiting to be recalled to a job from which they had been temporarily laid off are also included as unemployed.

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Labor Force: Employed and Unemployed

Receiving benefits from the Unemployment Insurance (UI) program has no bearing on whether a person is classified as unemployed.

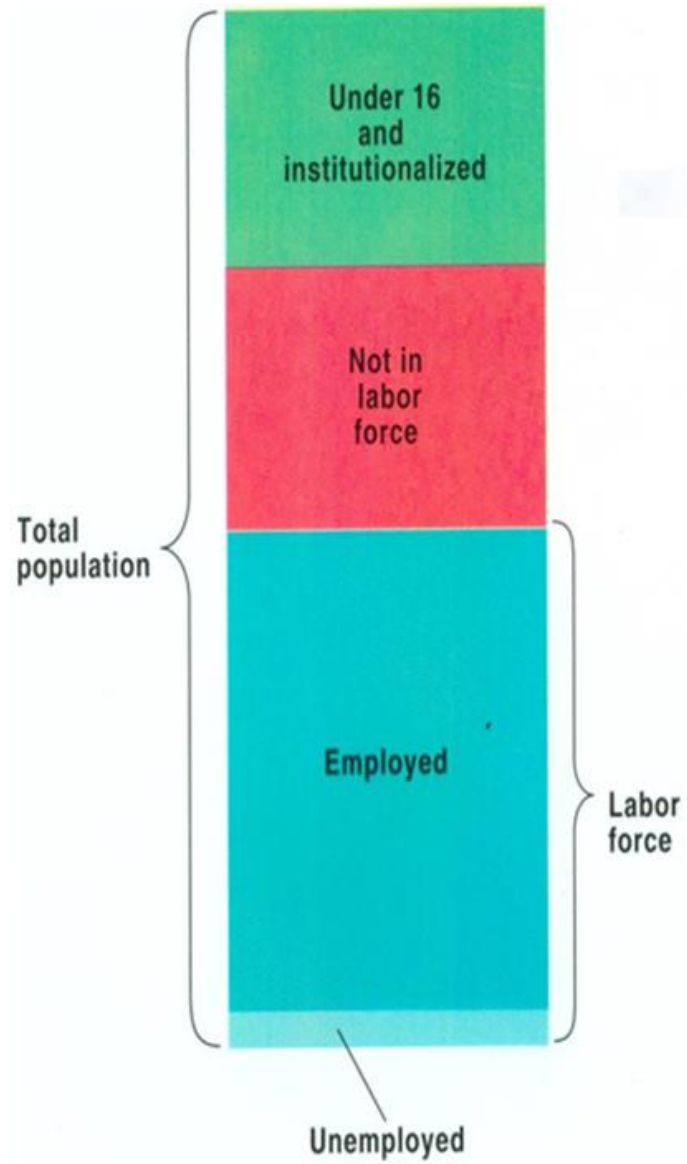
Labor Force: Employed and Unemployed

Bottom Line: You're in the labor force if you have a job or are actively looking for a job.

Out of the Labor Force

- Retired
- Institutionalized
- Student
- Taking care of a family member
- Not seeking employment

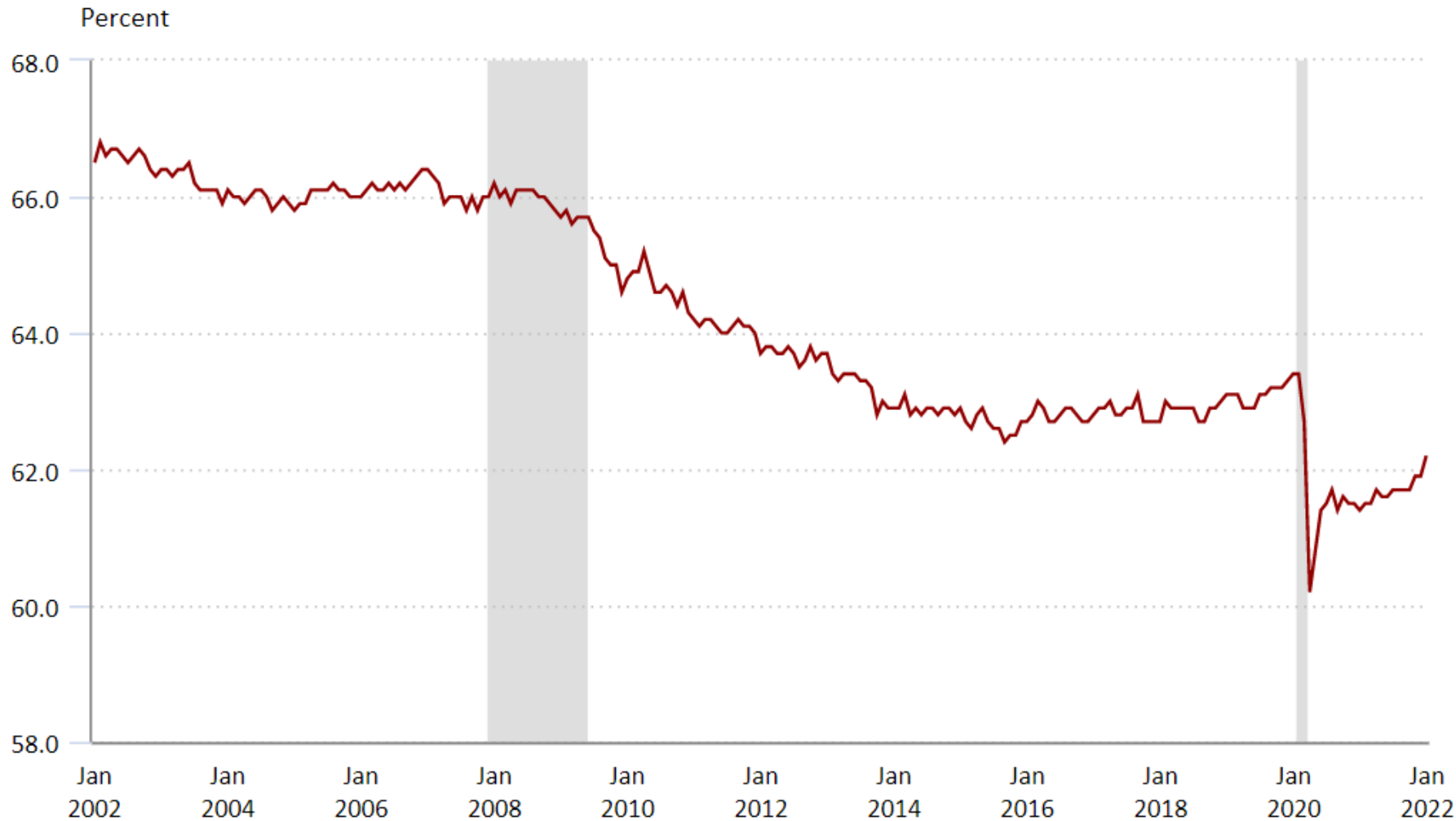
Labor Force Participation Rate:
Labor force divided by the total
working-age population. (Age 15-64)



Civilian labor force participation rate, seasonally adjusted

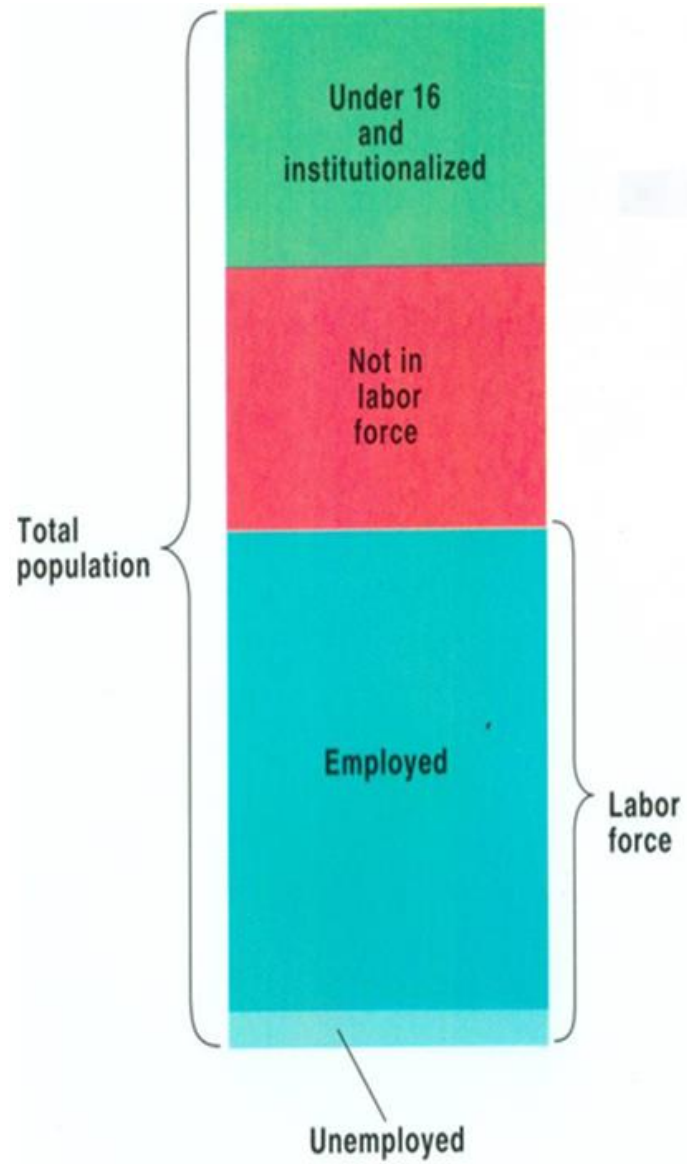
Click and drag within the chart to zoom in on time periods

- Total
- Men, 20 years and older
- Women, 20 years and older
- 16 to 19 years old
- White
- Black or African American
- Asian
- Hispanic or Latino



Unemployment Rate:

number of people unemployed as a percentage of the labor force.



Employment rates can change just by changes in the underlying data.

For example, if more people leave the labor force, the same number of people unemployed would represent a larger unemployment rate. Next slide for #'s

If there are 100 people in the labor force and 20 people unemployed, the unemployment rate is $20/100 = 20\%$.

If 10 people then leave the labor force and we still have 20 people unemployed, the unemployment rate will increase to $20/80 = 25\%$

Unemployment rates can be deceptive.

Unemployment rates can often be understated because it does not consider part time workers or discouraged worker.

By definition, workers are considered employed if they did any work for pay or profit during the survey reference week. Part time workers are considered employed.

To be considered unemployed someone has to have actively looked for work in the prior 4 weeks. If someone gives up looking, they would consider themselves unemployed but statistics don't show that. This is a discouraged worker.

Three types of unemployment.

1. Structural
2. Frictional
3. Cyclical

Some states have Seasonal in their curriculum but it is not part of A.P. Macro.

Structural: change in the demand for labor over time leads some people to become unemployed because their job is no longer needed. (ex: computers are taking the jobs of some people.) This also includes shifts in geography. (ex: companies move their headquarters.)

Frictional: This takes into account those workers that are between jobs. They are either searching for jobs or waiting to take jobs in the future.

I quit, or you are fired!

Cyclical: Unemployment caused by the contraction of the business cycle.

This is the one we worry about.

Are you unemployed? If so, which type?

Setup:

1. Print a room sign that says Employed, another that says Unemployed and a third that says Out of the Labor Force. Hang these in three separate parts of your room.
2. Print a sign that says Frictional Unemployment, another that says Structural Unemployment and a third that says Cyclical Unemployment. Hang these in three separate parts of your room.

Are you unemployed? If so, which type?

Setup:

3. Prepare enough employment, unemployment or out of labor force scenario cards for each student in the class.

4. Make sure about 80% are unemployment scenarios. Split those between Frictional, Structural and Cyclical.

If you are not creative, and don't want to come up with these, then assign your class to submit 3-4 each. Take the top 30-40 to use in class the next day.

I laminated my cards so I can use them year
after year.

After losing his last job, a 23-year-old has a job interview for a new one.

A 30 year old woman is a volunteer at a local grade school helping struggling learners.

You completed your medical degree you are relaxing a bit before you start work at a local hospital next month.

You work for an automobile manufacturer. You lost your job because they are automating.

You worked for a company that supplies the automobile industry. Car sales are down and production has slowed. You are laid off until things pick up.

You are a pharmacist at a local drug store.

You are 23 years old, and working 5 hours a week at Burger King, while you look for a job as a nurse.

You worked as a bank teller. In recent years, more people use electronic payments instead of cash. Due to this decrease in volume, the bank has discontinued your position.

You are a manager at a local department store.

You have a business mowing people's lawns.

Are you unemployed? If so, which type?

Procedure:

1. Hand out one employment, unemployment or out of labor force scenario to each student in the class. Tell them to stand under the sign that represents what their card says.
2. Starting with those employed, then those out of the labor force, have them read their scenario out loud. If they are incorrect, discuss it with the class and have them move to the correct sign.

Are you unemployed? If so, which type?

Procedure:

3. Have those that are under the unemployed sign, read their scenario. Verify that they are indeed unemployed but do not discuss what type of unemployment they are.

4. Now have the unemployed people move to the sign, (Structural, Frictional or Cyclical) that represents their type of employment.

Are you unemployed? If so, which type?

Procedure:

5. Have them read them again, and have the class confirm that they are in correct spot.
6. Once everyone has returned to their seat, get them to tell you by a show of hand how many where Out of the Labor Force, how many where Employed and how many where Unemployed. Record these numbers on the board.

Are you unemployed? If so, which type?

Procedure:

7. Using these numbers, have the student calculate the size of the labor force, the labor force participation rate and the unemployment rate.

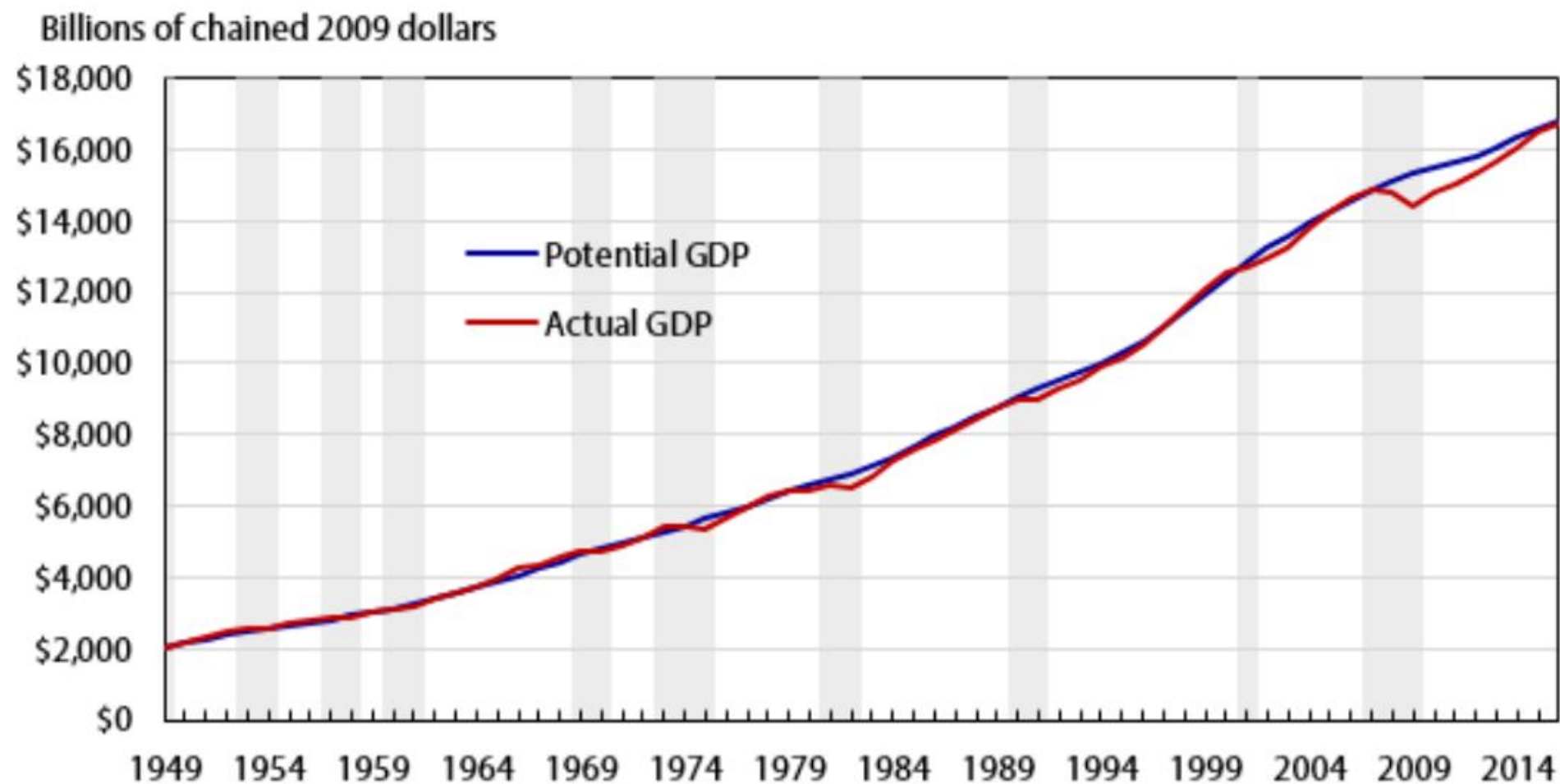
8. You can use this as an exit ticket, a grade or just a class discussion.

Natural Rate of Unemployment:

Unemployment rate that would exist when the economy produces at the full-employment real output.

(only have Frictional and Structural)

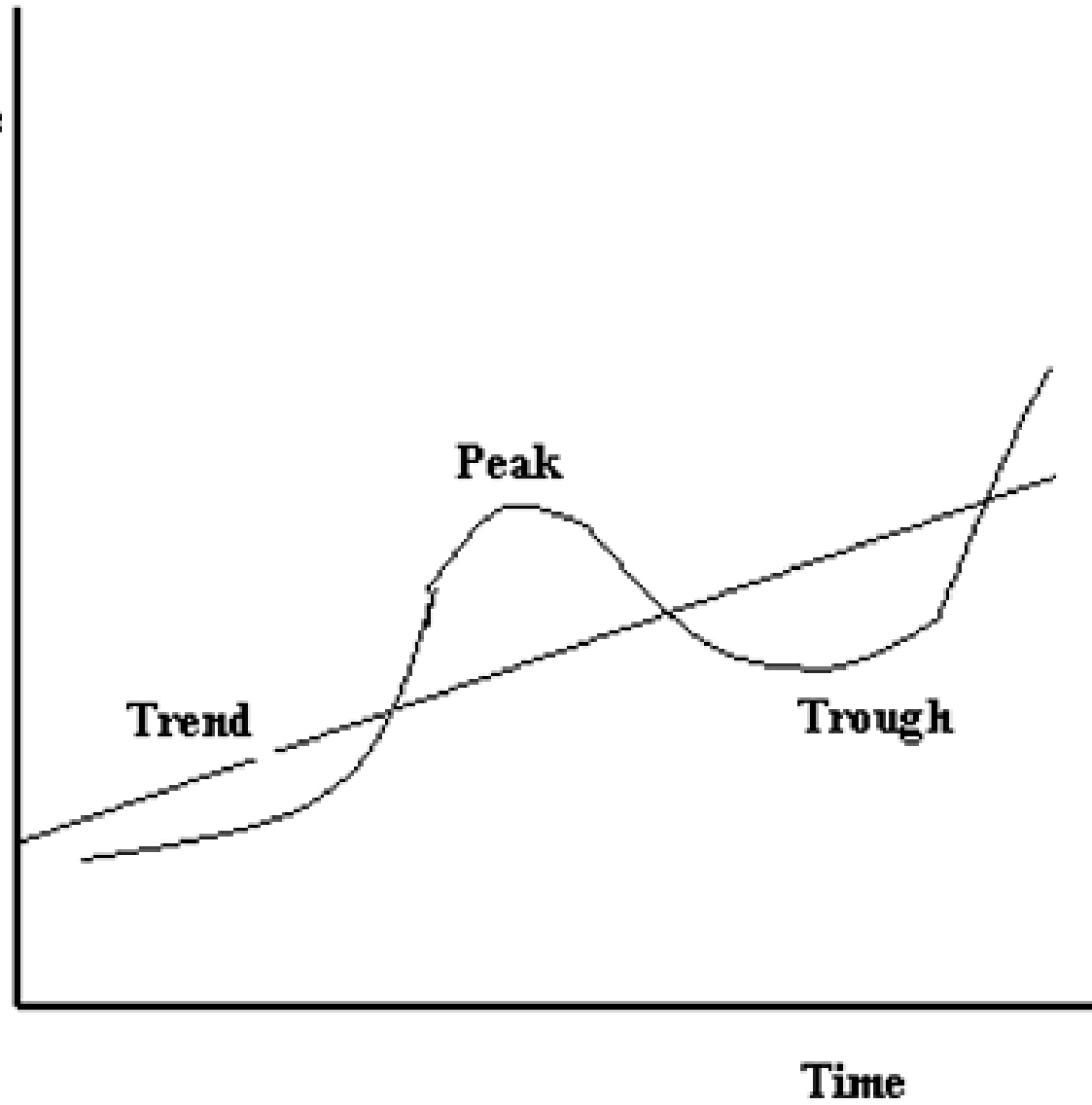
Figure 1. Gross domestic product (GDP) and potential GDP, 1949–2016



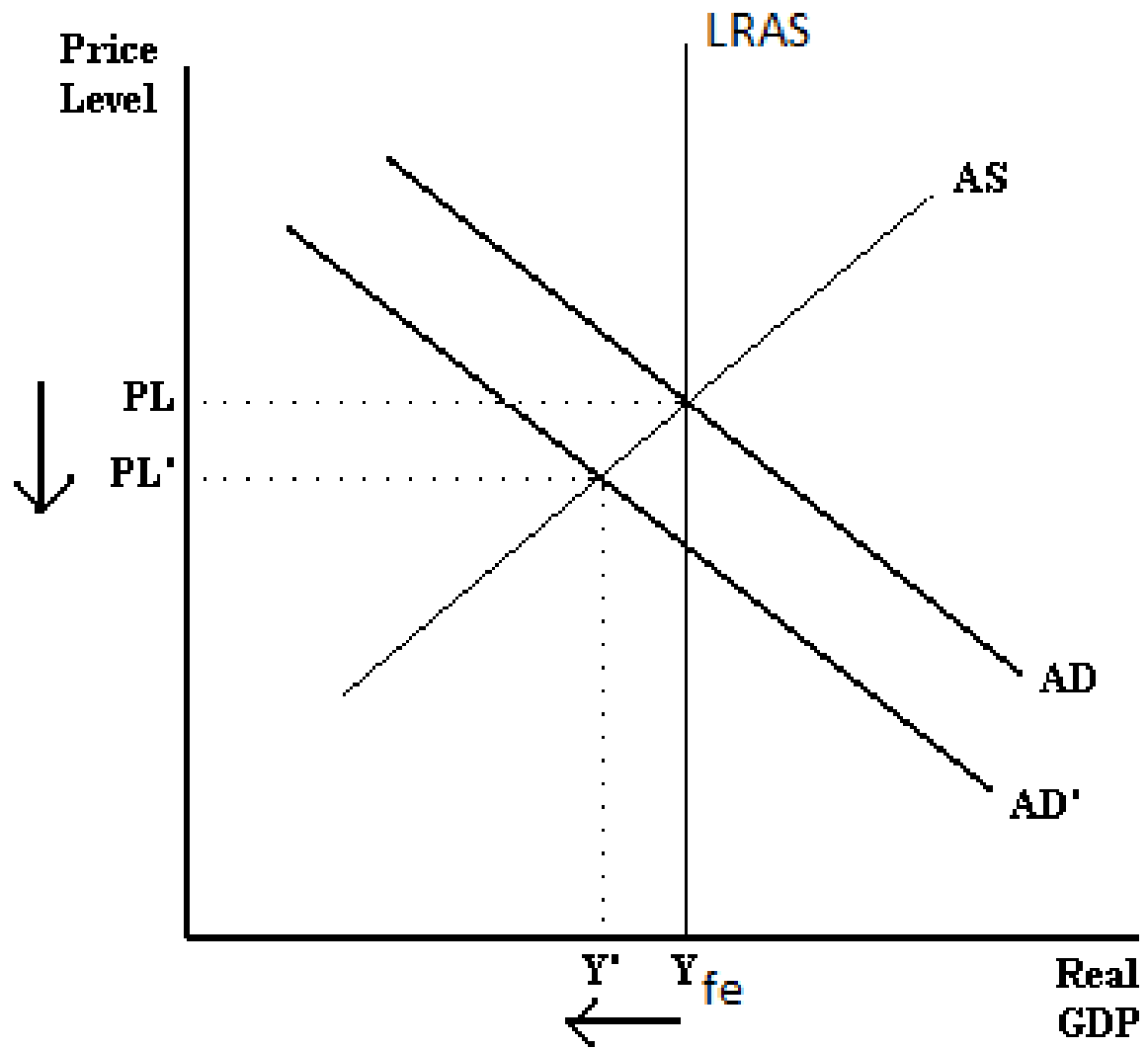
Note: Shaded areas indicate recessions, as determined by the National Bureau of Economic Research.
Sources: Gross domestic product: U.S. Bureau of Economic Analysis; potential gross domestic product: U.S. Congressional Budget Office.

I bring in the business cycle here to show them that when the economy is down, you have unemployment.

GDP
Level of
Business
Activity



Later in the course, you link unemployment to AS/AD curve. Showing them that anytime the economy is below LRAS, you have unemployment.



Decrease in AD leads to decrease in price level and decrease in output (real GDP)

Summary:

- Macroeconomics is all about two main “problems” in an economy. Unemployment and inflation. You will spend the entire semester talking about these things. Your students have to have thorough understanding of what they are.
- To fully understand the economy, you must know what unemployment is, how to calculate it and how to correct for it.

What are your questions?