

Edexcel (B) Economics A-level
**Theme 2: The Wider Economic
Environment**



2.5 The Economic Cycle

2.5.4 Employment and unemployment

Notes



Employment, underemployment and unemployment

-  The **unemployed** are those able and willing to work, but are not employed. They are actively seeking work and usually looking to start within the next two weeks.
-  The **underemployed** are those who have a job, but their labour is not used to its full productive potential. Those who are in part-time work, but are looking for a full-time jobs are underemployed.

Measures of unemployment:

It is usually difficult to accurately measure unemployment. Some of those in employment might claim unemployment related benefits, whilst some of the unemployed might not reveal this in a survey.

The two main measures of unemployment in the UK are:

The Claimant Count

This counts the number of people claiming unemployment related benefits, such as Job Seeker's Allowance (JSA). They have to prove they are actively looking for work.

Evaluating the Claimant Count:

Not every unemployed person is eligible for, or bothers claiming JSA. Those with partners on high incomes will not be eligible for the benefit, even if they are unemployed. Although there may be instances of people claiming the benefit whilst they are employed, the method generally underestimated the level of unemployment.

The International Labour Organisation (ILO) and the UK Labour Force Survey (LFS)


The LFS is taken on by the ILO. It directly asks people if they meet the following criteria:


- Been out of work for 4 weeks
- Able and willing to start working within 2 weeks
- Workers should be available for 1 hour per week. Part time unemployment is included.




Since the part time unemployed are less likely to claim unemployment benefit, this method gives a higher unemployment figure than the Claimant Count.

The causes of unemployment:

 The **geographical immobility** of labour refers to the obstacles which prevent labour from moving between areas. For example, labour might find it hard to find work due to family and social ties, the financial costs involved with moving, imperfect market knowledge on work and the regional variations in house prices and living costs across the UK.

 The **occupational immobility** of labour refers to the obstacles which prevent labour from changing their use. For example, labour might find it difficult to change the occupation. This occurred in the UK with the collapse of the mining industry, when workers did not have transferable skills to find other work. The causes include insufficient education, training and skills.

 The flexibility of the labour market is how willing and able labour is to respond to changes in the conditions of the market. It is important for labour to be able to adjust to changes in demand, and it is vital for the supply-side of the economy.

Structural unemployment

This occurs with a long term decline in demand for the goods and services in an industry, which costs jobs. This is especially true of jobs in industries such as car manufacturing, where labour is replaced by capital (this is also called **technological unemployment**). Moreover, the decline of the coal and ship building industries in the UK, led to a great deal of structural unemployment.

This type of unemployment is worsened by the geographical and occupational immobility of labour. If workers do not have the transferable skills to move to another industry, or if it is not easy to move somewhere jobs are available, then those facing structural unemployment are likely to remain unemployed in the long run.

Globalisation also contributes to structural unemployment, since production in the manufacturing sectors, such as in clothing or motor cars, moves abroad to countries with lower labour costs. This means that workers trained for these jobs will become



unemployed, because the industry has declined in size or has been removed from the economy.

Demand deficiency (cyclical unemployment)

This is caused by a lack of demand for goods and services, and it usually occurs during periods of economic decline or recessions. Firms are either forced to close or make workers redundant, because their profits are falling due to decreased consumer spending, and they need to reduce their costs. This then causes output to fall in several industries.

This type of unemployment could actually be caused by increases in productivity, which means each worker can produce a higher output, and therefore fewer workers are needed to produce the same quantity of goods and services.

The impact of unemployment on firms and individuals

Consumers

If consumers are unemployed, they have less disposable income and their standard of living may fall as a result.

There are also psychological consequences of losing a job, which could affect the mental health of workers.

Firms

With a higher rate of unemployment, firms have a larger supply of labour to employ from. This causes wages to fall, which would help firms reduce their costs.

However, with higher rates of unemployment, since consumers have less disposable income, consumer spending falls so firms may lose profits. Producers which sell inferior goods might see a rise in sales.

It might cost firms to retrain workers, especially if they have been out of work for a long time.

Workers



With unemployment, there is a waste of workers' resources. They could also lose their existing skills if they are not fully utilised.

 **Society**

There is an opportunity cost to society, since workers could have produced goods and services if they were employed.

There could be negative externalities in the form of crime and vandalism, if the unemployment rate increases.

