

## Grade 10

### Economics

#### Types of unemployment

There are several types of unemployment, each one defined in terms of cause and severity.

##### Cyclical unemployment

Cyclical unemployment exists when individuals lose their jobs as a result of a downturn in aggregate demand (**AD**). If the decline in aggregate demand is persistent, and the unemployment long-term, it is called either *demand deficient, general*, or Keynesian unemployment.

##### Structural unemployment

Structural unemployment occurs when certain industries decline because of long term changes in market conditions. For example, over the last 20 years UK motor vehicle production has declined while car production in the Far East has increased, creating structurally unemployed car workers. Globalization is an increasingly significant cause of structural unemployment in many countries.

##### Regional unemployment

When structural unemployment affects local areas of an economy, it is called 'regional' unemployment. For example, unemployed car workers in the Midlands and Essex add to regional unemployment in these areas. In the UK, the further we move away from the affluent South East the greater the unemployment rate. Geographical immobility makes regional differences more extreme.

##### Classical unemployment

Classical unemployment is caused when wages are 'too' high. This explanation of unemployment dominated economic theory before the 1930s, when workers themselves were blamed for not accepting lower wages, or for asking for too high a wage. Classical unemployment is also called *real wage* unemployment.

##### Seasonal unemployment

Seasonal unemployment exists because certain industries only produce or distribute their products at certain times of the year. Industries where seasonal unemployment is common include farming, tourism, and construction.

##### Frictional unemployment

Frictional unemployment, also called *search unemployment*, occurs when workers lose their current job and are in the process of finding another one. There may be little that can be done to reduce this type of unemployment, other than provide better information to reduce the search time. This suggests that *zero unemployment* is impossible at any one time because some workers will always be in the process of changing jobs.

##### Voluntary unemployment

Voluntary unemployment is defined as a situation when workers choose not to work at the current equilibrium wage rate. For one reason or another, workers may elect not to participate in the labour market. There are several reasons for the existence of voluntary unemployment including excessively generous welfare benefits and high rates of income tax. Voluntary unemployment is likely to occur when the equilibrium wage rate is below the wage necessary to encourage individuals to supply their labour.

### *The natural rate of unemployment*

This is a term associated with new Classical and monetarist economists. It is defined as the rate of unemployment that still exists when the labour market is in equilibrium, and includes seasonal, frictional and voluntary unemployment. The US economist Milton Friedman first used the concept to help explain the connection between unemployment and inflation. Friedman argued that if unemployment fell below the *natural rate* there would be an increase in the rate of inflation.

By: Hadiqa Asim