

## Types of Unemployment

There are three types of unemployment:

- *Frictional unemployment* includes people who are temporarily between jobs. They may have quit one job to find another, or they could be trying to find the best opportunity after graduating from high school or college.
- *Cyclical unemployment* includes people who are not working because firms do not need their labor due to a lack of demand or a downturn in the business cycle. For example, if people are not buying many goods and services, workers are laid off.
- *Structural unemployment* involves mismatches between job seekers and job openings. Unemployed people who lack skills or do not have sufficient education are structurally unemployed.

At full employment, we have frictional and structural unemployment, but cyclical unemployment would be zero. At full employment, the level of unemployment is called the *natural rate of unemployment*.

For each of the following situations, put the appropriate letter before the example.

F if it is an example of *frictional* unemployment.

C if it is an example of *cyclical* unemployment.

S if it is an example of *structural* unemployment.

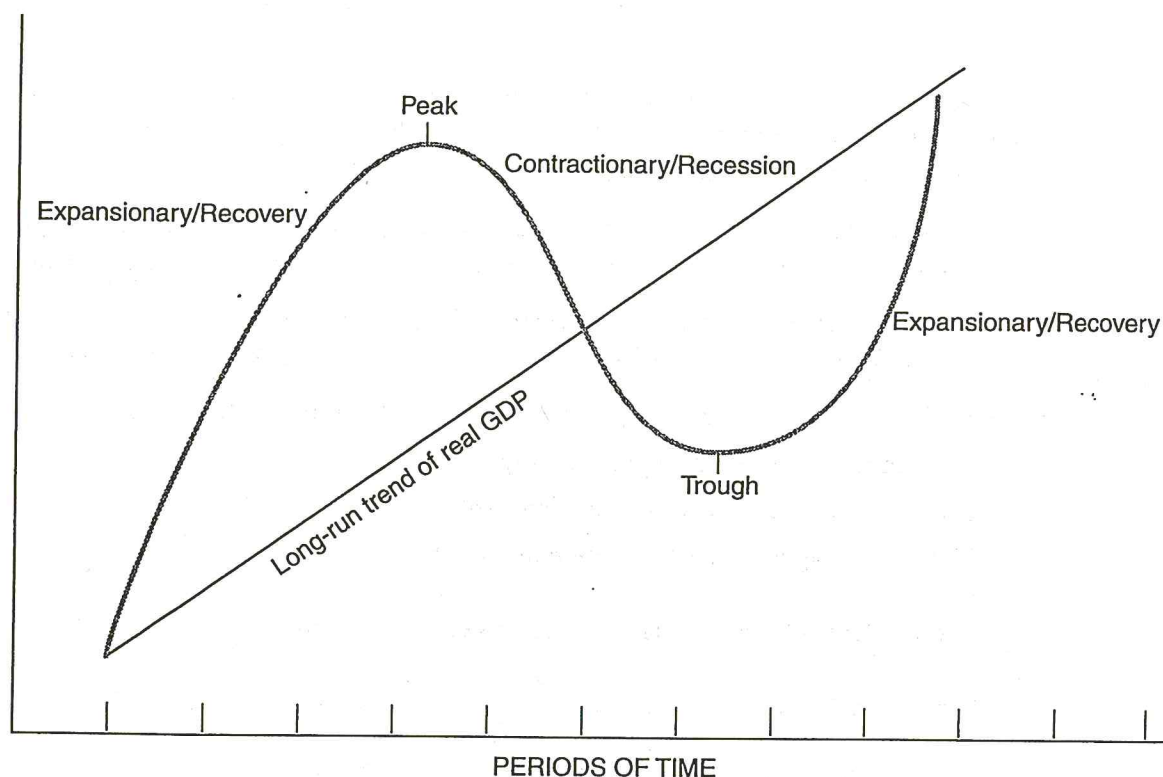
- \_\_\_ 1. A computer programmer is laid off because of a recession.
- \_\_\_ 2. A literary editor leaves her job in New York to look for a new job in San Francisco.
- \_\_\_ 3. An unemployed college graduate is looking for his first job.
- \_\_\_ 4. Advances in technology make the assembly-line worker's job obsolete.
- \_\_\_ 5. Slumping sales lead to the cashier being laid off.
- \_\_\_ 6. An individual refuses to work for minimum wage.
- \_\_\_ 7. A high school graduate lacks the skills necessary for a particular job.
- \_\_\_ 8. Workers are laid off when the local manufacturing plant closes because the product made there isn't selling.
- \_\_\_ 9. A skilled glass blower becomes unemployed when a new machine does her job faster.

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## The Business Cycle



Figure 17.1  
The Business Cycle



The curved line on Figure 17.1 shows a sample business cycle for an economy. The straight line represents the long-run trend of real GDP.

The business cycle can conveniently be divided into four phases:

1. **Expansionary or recovery phase.** Real output in the economy is increasing and the unemployment rate is declining. As the economic expansion continues, inflation may begin to accelerate.
2. **Peak.** Real output, GDP, is at its highest point of the business cycle.
3. **Contractionary or recession phase.** Real output in the economy is decreasing, and the unemployment rate is rising. As the contraction continues, inflationary pressures subside. If the recession continues long enough, prices may actually start to fall, a situation known as deflation.
4. **Trough.** The lowest point of real GDP reached during the business cycle is known as the trough. If the trough is particularly deep, it may be called a depression. A depression is an economic situation where the level of output falls to especially low levels and unemployment climbs to very high levels relative to the historical average. There is no precise decline in out-

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put at which a serious recession becomes a depression. However, most business cycles do not end in a depression. The most recent depression the United States experienced was during the 1930s.

1. Figure 17.2 contains information for the U.S. economy from 1980 through 2001. For each quarter, first identify whether the economy was in an expansionary (E) or a contractionary (C) phase. Go back and pick out the quarters that correspond with a business cycle peak, and mark them with a P. Then find the quarters that correspond with a trough, and mark them with a T. Some of the answers have been provided for you.

Using your answers from Question 1, answer the following questions.

2. How many business cycles did the U.S. economy have between 1980 and 2001? \_\_\_\_\_
3. In how many quarters was output expanding? \_\_\_\_\_
4. In how many quarters was output contracting? \_\_\_\_\_
5. Which expansion looks best to you? Explain.
6. Which contraction looks worst to you? Explain.
7. During quarters in which real GDP fell, what happened to the unemployment rate compared with the previous quarter? Why?
8. Look at the unemployment rate in quarters corresponding to a business cycle peak. Why do you think there was still some unemployment in these quarters?
9. Look at the unemployment rate in quarters corresponding to recoveries. Why do you think the unemployment rate remained high?
10. Based on the years 1980 to 2001, how does the rate of inflation correspond with the business cycle?



Figure 17.2

## The U.S. Economy from 1980

Year	Real GDP in 1996 Dollars (billions)	% Change From Previous Quarter	Civilian Unemployment Rate	Inflation Rate (CPI)	Phase of Business Cycle
1980q1	4,958.9	0.33	6.30	3.91	
1980q2	4,857.8	-2.04	7.32	3.67	
1980q3	4,850.3	-0.15	7.68	1.83	
1980q4	4,936.6	1.78	7.40	2.64	
1981q1	5,032.5	1.94	7.43	2.65	
1981q2	4,997.3	-0.70	7.40	2.32	
1981q3	5,056.8	1.19	7.42	2.82	
1981q4	4,997.1	-1.18	8.24	1.44	
1982q1	4,914.3	-1.66	8.84	0.82	
1982q2	4,935.5	0.43	9.43	1.52	
1982q3	4,912.1	-0.47	9.94	1.88	
1982q4	4,915.6	0.07	10.68	0.24	
1983q1	4,972.4	1.16	10.39	-0.07	
1983q2	5,089.8	2.36	10.10	1.26	
1983q3	5,180.4	1.78	9.36	1.18	
1983q4	5,286.8	2.05	8.54	0.90	
1984q1	5,402.3	2.18	7.87	1.12	E
1984q2	5,493.8	1.69	7.48	1.08	E
1984q3	5,541.3	0.86	7.45	1.10	E
1984q4	5,583.1	0.75	7.28	0.73	E
1985q1	5,629.7	0.83	7.28	0.63	E
1985q2	5,673.8	0.78	7.29	1.23	E
1985q3	5,758.6	1.49	7.21	0.71	E
1985q4	5,806.0	0.82	7.05	0.89	E
1986q1	5,858.9	0.91	7.02	0.21	E
1986q2	5,883.3	0.42	7.18	-0.21	E
1986q3	5,937.9	0.93	6.99	0.73	E
1986q4	5,969.5	0.53	6.83	0.55	E
1987q1	6,013.3	0.73	6.62	1.12	E



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Figure 17.2 (continued)

Year	Real GDP in 1996 Dollars (billions)	% Change From Previous Quarter	Civilian Unemployment Rate	Inflation Rate (CPI)	Phase of Business Cycle
1987q2	6,077.2	1.06	6.28	1.31	E
1987q3	6,128.1	0.84	6.01	1.15	E
1987q4	6,234.4	1.73	5.87	0.84	E
1988q1	6,275.9	0.67	5.73	0.61	E
1988q2	6,349.8	1.18	5.49	1.26	E
1988q3	6,382.3	0.51	5.49	1.33	E
1988q4	6,465.2	1.30	5.35	1.04	
1989q1	6,543.8	1.22	5.22	1.11	
1989q2	6,579.4	0.54	5.24	1.64	
1989q3	6,610.6	0.47	5.28	0.81	
1989q4	6,633.5	0.35	5.37	0.96	
1990q1	6,716.3	1.25	5.30	1.72	
1990q2	6,731.7	0.23	5.34	1.02	
1990q3	6,719.4	-0.18	5.69	1.73	
1990q4	6,664.2	-0.82	6.11	1.62	
1991q1	6,631.4	-0.49	6.57	0.82	
1991q2	6,668.5	0.56	6.82	0.59	
1991q3	6,684.9	0.25	6.85	0.79	
1991q4	6,720.9	0.54	7.10	0.76	E
1992q1	6,783.3	0.93	7.38	0.70	E
1992q2	6,846.8	0.94	7.60	0.82	E
1992q3	6,899.7	0.77	7.63	0.79	E
1992q4	6,990.6	1.32	7.41	0.71	E
1993q1	6,988.7	-0.03	7.15	0.85	C
1993q2	7,031.2	0.61	7.07	0.77	E
1993q3	7,062.0	0.44	6.80	0.39	E
1993q4	7,168.7	1.51	6.62	0.69	E
1994q1	7,229.4	0.85	6.56	0.64	E
1994q2	7,330.2	1.39	6.17	0.64	E
1994q3	7,370.2	0.55	6.00	0.88	E



Figure 17.2 (continued)

Year	Real GDP in 1996 Dollars (billions)	% Change From Previous Quarter	Civilian Unemployment Rate	Inflation Rate (CPI)	Phase of Business Cycle
1994q4	7,461.1	1.23	5.62	0.47	E
1995q1	7,488.7	0.37	5.48	0.82	E
1995q2	7,503.3	0.19	5.68	0.88	E
1995q3	7,561.4	0.77	5.66	0.44	E
1995q4	7,621.9	0.80	5.57	0.48	E
1996q1	7,676.4	0.72	5.55	0.91	E
1996q2	7,802.9	1.65	5.47	0.99	E
1996q3	7,841.9	0.50	5.26	0.53	E
1996q4	7,931.3	1.14	5.31	0.72	E
1997q1	8,016.4	1.07	5.23	0.67	E
1997q2	8,131.9	1.44	4.98	0.40	E
1997q3	8,216.6	1.04	4.86	0.40	E
1997q4	8,272.9	0.69	4.68	0.39	E
1998q1	8,396.3	1.49	4.64	0.27	E
1998q2	8,442.9	0.56	4.42	0.54	E
1998q3	8,528.5	1.01	4.53	0.39	E
1998q4	8,667.9	1.63	4.43	0.35	E
1999q1	8,733.5	0.76	4.26	0.39	E
1999q2	8,771.2	0.43	4.26	0.97	E
1999q3	8,871.5	1.14	4.25	0.62	E
1999q4	9,049.9	2.01	4.10	0.62	E
2000q1	9,102.5	0.58	4.02	0.99	E
2000q2	9,229.4	1.39	4.00	1.06	E
2000q3	9,260.1	0.33	4.06	0.80	E
2000q4	9,303.9	0.47	3.97	0.54	E
2001q1	9,334.5	0.33	4.19	0.96	E
2001q2	9,341.7	0.08	4.47	1.04	E



## Test Your Understanding of Macroeconomic Indicators

Answer the questions and briefly explain your answers.

1. The unemployment rate and employment both go up. Ellen says that it is not possible for both to rise at the same time. Is Ellen correct or incorrect? Why?
2. True, false or uncertain, and explain why? "Gross domestic product measures the amount of wealth in the economy."
3. True, false or uncertain, and explain why? "A decrease in gross domestic product must reduce a person's standard of living."
4. True, false or uncertain, and explain why? "If nominal GDP increases by 5 percent and the price level increases by 7 percent, real GDP has decreased."
5. True, false or uncertain, and explain why? "In preparing an index of prices, it is important that all commodities entering the index be given equal weight."
6. True, false or uncertain, and explain why? "*Frictional* and *structural* unemployment are two words for the same thing."

Several questions come from Phillip Saunders, *Introduction to Macroeconomics: Student Workbook*, 18th ed. (Bloomington, Ind., 1998). Copyright 1998 Phillip Saunders. All rights reserved. Betty Shackleford, Maconaquah High School, Bunker Hill, Ind., and Kathleen Whitsett, Princeton High School, Cincinnati, Ohio, contributed to this activity.

7. Why does unanticipated inflation help borrowers and hurt lenders?
  
  
  
  
  
  
  
  
  
  
8. True, false or uncertain, and explain why? "Inflation always increases when unemployment decreases."
  
  
  
  
  
  
  
  
  
  
9. True, false or uncertain, and explain why? "If the economy is at full employment, the unemployment rate is zero."
  
  
  
  
  
  
  
  
  
  
10. True, false or uncertain, and explain why? "Seasonal unemployment is a continual worry because some people are out of work on a regular basis."