Liberty High School

AP Macroeconomics

Mr. Lopez

Chapter 28 Study Guide

Unemployment

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period:\_\_\_\_\_\_\_

Part 1 – Key terms?

From 2012

1. Unemployment rate:
2. Labor force participation rate:
3. Natural rate of unemployment:
4. Cyclical unemployment:
5. Discouraged workers:
6. Frictional unemployment:
7. Structural unemployment:
8. Job search:
9. Sectorial shifts:
10. Unemployment insurance:
11. Union:
12. Collective bargaining:
13. Strike:
14. Insiders:
15. Outsiders:
16. Right to work laws:
17. Efficiency wages:

Part 2 – Problems and short answers

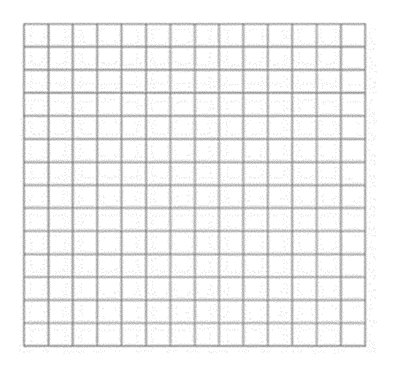
1. Use the following information about Employment Country to answer the questions below;

|  |  |  |
| --- | --- | --- |
|  | 2012 | 2013 |
| Population | 223.6 | 226.5 |
| Adult population | 168.2 | 169.5 |
| Number of unemployed | 7.4 | 8.1 |
| Number of employed | 105.2 | 104.2 |

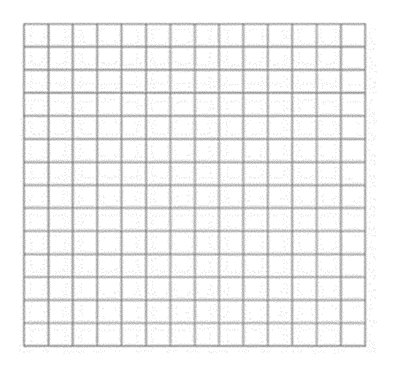
* 1. What is the labor force in 2012 and 2013?
  2. What is the labor force participation rate in 2012 and 2013?
  3. What is the unemployment rate in 2012 and 2013
  4. From 2012 to 2013, the adult population went up while the labor force went down. Provide a number of explanations why this might have occurred.
  5. If the natural rate of unemployment in Employment Country is 6.6%, how much is cyclical unemployment in 2012 and 2013? Is Employment Country likely to be experiencing a recession in either of these years?

1. Suppose the labor market is segmented into two distinct markets: the market for low skilled workers and the market for high skilled workers. Furthermore, suppose the competitive equilibrium wage in the low skilled market is $5.00 per hour, while the competitive equilibrium wage in the high skilled market is $15.00 per hour.
   1. If the minimum wage is set at $7.00 per hour, which market will exhibit the greatest amount of unemployment? Demonstrate it graphically below. Label the y axis in each graph “Wage” and the x axis “Quantity of Labor”

Low Skilled Market



High Skilled Market



* 1. Does the minimum wage have any impact on the high skilled market? Why or why not?
  2. Do your results seem consistent with labor market statistics? Explain.
  3. Suppose the high skilled market becomes unionized and the new negotiated wage is $18.00 per hour. Will this have any effect on the low skilled market? Explain.

1. Answer the following questions about the composition of unemployment.
   1. What are some of the sources of unemployment?
   2. Which type of unemployment is initiated by the firm?
   3. Why might a firm pay wages in excess of the competitive equilibrium?
   4. Which type of efficiency wage is unlikely to be relevant in the United States? Why or why not?
   5. How does frictional unemployment differ from the other sources of unemployment?
2. Name two reasons why the unemployment rate is an imperfect measure of joblessness.
3. Explain the statement, “Most spells of unemployment are short, and most unemployment observed at any given time is long term.”
4. Where would a labor union by more likely to increase efficiency rather than reduce it: a small remote town with one large employer or a major city with many employers? Why?
5. Name two ways that a union increase the disparity in wages between members and nonmembers?
6. Which alternative measure of unemployment attempts to include the impact of discouraged workers in the unemployment statistics? Explain. Is it higher or lower than the official unemployment rate? Explain.
7. Does the minimum wage cause much unemployment in the market for accountants? Why or why not?
8. Which type of unemployment will occur even if the wage is at the competitive equilibrium? Why?
9. How does unemployment insurance increase frictional unemployment?
10. How might the government reduce frictional unemployment?
11. Which of the following individuals is most likely to be unemployed for a long term, a buggy whip maker who loses his job when automobiles became popular or a waitress who is laid off when a new café opens in town? Explain.

Part 3 – True or False

31.\_\_\_\_\_\_\_ The natural rate of unemployment is the amount of unemployment that won’t go away on its own, even in the long run.

32.\_\_\_\_\_\_\_If the unemployment rate falls, we can be certain that more workers have jobs.

33.\_\_\_\_\_\_\_in-post World War II United States, the labor force participation rate has been rising for women and falling for men.

34.\_\_\_\_\_\_\_The unemployment rate is about the same for the various demographic groups, women, men, black, white, young, and old.

35.\_\_\_\_\_\_\_A minimum wage is likely to have a greater impact on the market for skilled workers than on the market for unskilled workers.

36.\_\_\_\_\_\_\_The presence of a union tends to raise wages for insiders and lower the wages for outsiders.

37.\_\_\_\_\_\_\_a union is a labor cartel.

38. \_\_\_\_\_\_\_Advocates of unions argue that unions may increase efficiency in some circumstances because they decrease the cost of bargaining between labor and management.’

39. \_\_\_\_\_\_\_An efficiency wage is like a minimum wage in that firms are required by legislation (law) to pay it.

40.\_\_\_\_\_\_\_ Paying efficiency wages tends to increase worker turnover because workers can get continually higher wages as they “job hop”.

41.\_\_\_\_\_\_\_Firms may voluntarily pay wages above the level that balances the supply and demand for workers because the higher wage improves the average quality of workers that apply for employment.

42.\_\_\_\_\_\_\_If wages were always at the competitive equilibrium, there would be absolutely no unemployment.

43.\_\_\_\_\_\_\_Due to the existence of “discouraged” workers”, the official unemployment rate may overstate true unemployment.

44.\_\_\_\_\_\_\_The presence of unemployment insurance tends to decrease the unemployment rate because recipients of unemployment benefits are not counted in the labor force.

45.\_\_\_\_\_\_\_Whenever the wage rises above the competitive equilibrium, regardless of the source, the result is additional unemployment.

Part 4 – Additional critical thinking

46. You are watching the national news with your roommate,. The news anchor says, “Unemployment statistics released by the department of Labor today show an increase in unemployment from 6.1% to 6.2%. This is the third month in a row where the unemployment rate has increased. “ Your roommate says “Every month there is are fewer and fewer people with jobs. I don’t know how much longer the country can continue like this.”

a. Can your roommate’s statement be deduced from the unemployment rate statistic? Why or why not?

b. What information would you need to determine whether there are really fewer people with jobs?