4.2 UNEMPLOYMENT

- Statistics Canada keeps track of the labour force through a monthly survey of about 58,000 households who represent a random sample of the population.
- Unemployment, which occurs when an economy is not producing at full capacity, can apply to any 3 factor markets (labour, land, or capital).
- To be classified as unemployed, a person must be (1) available for work and (2) actively seeking employment, though not currently holding paid employment.

4.2 UNEMPLOYMENT

- There are four types of unemployment:
  - Frictional unemployment is due to being temporarily between jobs or looking for a first job.
  - Employment benefits allow people to accept periodic layoffs without actively searching for other work.
  - Continuous inflow of new people into the labour market.
  - Structural unemployment results from structural changes in an economy’s industries. Emerging industries, “sunset” (fading) industries, and industries that suddenly die affect employment.
4.2 UNEMPLOYMENT

There are four types of unemployment (continued):

- Seasonal unemployment is due to the seasonal nature of some occupations and industries
- Canada’s employment rate is seasonally adjusted, meaning it removes the effect of increases and decreases in unemployment that are purely the result of seasonal influences
- Cyclical unemployment occurs as a result of recessionary phase of the business cycle
- Due to fluctuations in output and spending

4.2 UNEMPLOYMENT

Full employment:

- Occurs during the expansion stage of the business cycle (i.e. only frictional and structural employment exist, zero cyclical employment)
- Natural rate of unemployment: unemployment rate at full employment; the lowest unemployment rate an economy can achieve without accelerating inflation
- Full employment does not mean that everyone who wants a job has one

4.2 UNEMPLOYMENT

Reasons for increases in the natural rate of unemployment (compared to 20-30 years ago):

- Changes in employment insurance (EI)
- Longer job search times
- Increase in number of people entering the labour force
4.2 UNEMPLOYMENT

- Working age population: total population of the country, excluding those under 15 yrs old, those living in Canada’s 3 territories (or on Aboriginal reserves), full-time members of institutions like jails or hospitals, and those in the armed forces.
- Labour force: members of the working age population, either employed or actively seeking employment.

4.2 UNEMPLOYMENT

- Not all who are part of the working age population are also part of the labour force.
- Participation rate: percentage of those in the working age population who are actually in the labour force.
  - Participation rate = \( \frac{\text{Labour force}}{\text{Working age population}} \times 100 \)
- To be classified as unemployed, a person must be (1) available for work and (2) actively seeking employment, though not currently holding paid employment.

4.2 UNEMPLOYMENT

- Unemployment rate: percentage of those in the labour force who do not hold paid employment.
  - Unemployment rate = \( \frac{\text{Number of unemployed}}{\text{Labour force}} \times 100 \)
- Measured monthly in Canada.
- Canada’s unemployment as of February 2014 was 7% (see http://www.statcan.gc.ca/start-debut-eng.html).
- Rate rises in periods of economic slowdown and falls in periods of expansion.

Canada’s unemployment as of February 2014 was 7% (see http://www.statcan.gc.ca/start-debut-eng.html).
What happened in February 2014?

- Unemployment rate steady at 7%
- Little overall employment growth in Canada since August 2013
- Economy lost 7000 jobs in February, as 18,900 full-time jobs were created but 25,900 part-time positions disappeared
- Employment decreased in Quebec and British Columbia, yet increased in Alberta and Nova Scotia
4.2 UNEMPLOYMENT

What happened in February 2014? (continued)

- Fewer people working in health care, social assistance, finance, insurance, real estate and leasing.
- Employment rose in "other services," natural resources as well as agriculture.
- Number of public sector employees declined in February, while there was little change among private sector employees and the self-employed.
- Employment fell among men aged 25 to 54 and was virtually unchanged for the other demographic groups.

4.2 UNEMPLOYMENT

- Criticisms of official rate:
  - Does not take underemployment (problem of workers being underutilized, either as part-time workers or by working at jobs not appropriate to their skills or education) into consideration.
  - Does not address discouraged workers (unemployed workers who have given up looking for work, since workers must be actively looked for employment in order to be classified as "unemployed").

4.2 UNEMPLOYMENT

- Criticisms of official rate (continued):
  - Skewed by dishonest claims to be actively seeking employment by those who collect EI or welfare payments, and who instead are waiting for these payments to stop before beginning active participation in the market.
  - Overlooks people who work in the hidden economy (i.e. working illegal jobs or working legal jobs but not claiming their income) and declare themselves unemployed.
4.2 UNEMPLOYMENT

- 2011 snapshot of Canada
  - Working age population represented 68.5% of country’s total population, a higher proportion than any other G8 country besides Russia
  - Labour force participation rate was 78%
  - Average unemployment rate was 7.4% (7.8% in Ontario, with a high of 12.7% in Newfoundland & Labrador and a low of 5.0% in Saskatchewan)

4.2 UNEMPLOYMENT

- The cost of unemployment
  - EI and welfare payments are not costs of unemployment since they are regarded as transfer payments
  - True costs come from the fact the unemployment limits the output of goods and services an economy can produce
  - GDP gap: difference between potential and actual GDP
    - \( \text{GDP gap} = \text{potential GDP} - \text{actual GDP} \)

4.2 UNEMPLOYMENT

- The cost of unemployment
  - (Arthur) Okun’s law: observation that for every 1% cyclical unemployment an economy’s GDP would be 2.5% below its potential
  - \( \text{GDP gap} = 2.5 \times \text{cyclical unemployment (\%) x} \) actual GDP
  - E.g. In 2007, real GDP in 2002 dollars was $1247.8 billion, the unemployment rate was 6.8%, and the assumed natural employment rate was 6.5%
    - \( \text{GDP gap} = 2.5 \times (6.8 - 6.3) \times 1247.8 \text{ billion} \)
    - = $9.4 billion (your calculator might show 935.85)