## **CHAPTER 25: Employment and Unemployment (Causes and effects)**

## **Key terms**

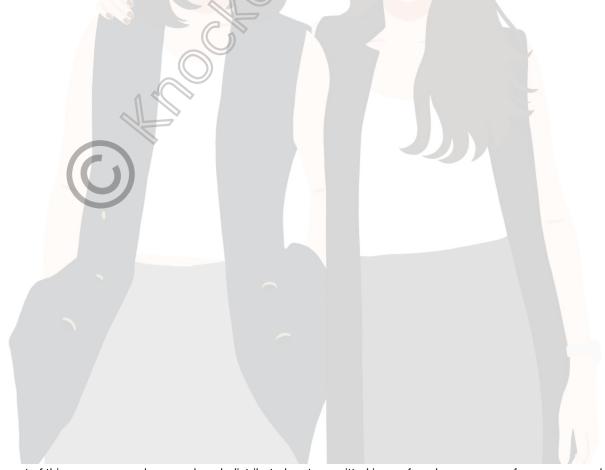
- Cyclical or demand-deficient unemployment: when there is insufficient demand in the economy for all workers who wish to work at current wage rates to obtain a job.
- 2. Frictional unemployment : when workers are unemployed for short lengths of time between jobs.
- 3. Real wage or classical unemployment: when workers are unemployed because real wages are too high and inflexible downwards.
- 4. Seasonal unemployment : when workers are unemployed at certain times of the year, such as building workers or farm workers in winter.
- 5. Short-term unemployed: in the UK, those unemployed for less than a year
- 6. Structural unemployment: when the pattern of demand and production changes, leaving workers unemployed in labour markets where demand has shrunk.
- Technological unemployment : when developments in technology cause roles to become redundant.

## 1. Causes of unemployment

Types of unemployment	Meaning
1. Frictional unemployment	Is the temporary and arise where people are in
	between job. This is time between leaving job and
	looking for another one.
2. Seasonal unemployment	This occurs during certain points of the year, usually
	around eg. summer/winter
3. Structural unemployment	As a result of the changing structure of economy
	activity occurs with a long term decline in demand for
	the goods and services in the particular industry, which
	costs job.
4. Cyclical unemployment	Recession, negative GDP over 6 months
	: Firms cannot sell goods and services as people have
	lower income
	: Firms need to redundant employees and caused
	unemployment

## 2. The effects of unemployment

Advantages	Disadvantages
1. People don't have any income to buy	People have lower disposable income and
goods and services	cannot afford goods and services
: It can reduce AD and hence reduce pressure	: There will be lower standard of living
of demand-pull inflation.	2. It could affect the mental health of
	unemployed.
2. Firms that sell inferior goods can possible	3. As there will be lower demand int he marker,
gain more revenue.	Firms receive lower revenue and profit
	4. There will be inefficiency used of resources.
3. Wage can be lower and hence firms can	5. Government receive lower tax revenue
reduce cost of production	: Gov. Less budget to develop countries
: As a result, it can reduce cost-push inflation.	6. Government may need to pay more on
	unemployed benefits
	: It can create national debt



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