CHAPTER 13
Economic Challenges

13.1 Unemployment
13.2 Inflation
13.3 Economic Instability
13.4 Poverty
CHAPTER 13
Economic Challenges

- Would a high school senior who is not working be considered unemployed?
- What type of unemployment might be healthy for the economy?
- What’s bad about inflation?
- What’s stagflation?
- Why don’t some families benefit from a strong economy?
- How might government transfers change work incentives?
LESSON 13.1

Unemployment

- Distinguish among four types of unemployment.
- Discuss the unemployment rate, and describe how it differs over time and across groups.
- Explain who is eligible for unemployment benefits in the United States.
Key Terms

LESSON 13.1

Unemployment

- full employment
- underemployment
- labor force
- unemployment rate
- labor force participation rate
- unemployment benefits
Types of Unemployment

- Frictional unemployment
- Structural unemployment
- Seasonal unemployment
- Cyclical unemployment
- Full unemployment
Frictional Unemployment

- The time required to bring together labor suppliers and labor demanders creates frictional unemployment.
- Frictional unemployment does not usually last long and results in a better match-up between workers and jobs.
Structural Unemployment

- Structural unemployment results when job seekers do not have the skills demanded.
- The unemployed may need to retrain to develop required skills.
Seasonal Unemployment

- Unemployment caused by seasonal changes in labor demand during the year is called **seasonal unemployment**.
- Workers in seasonal jobs know they will probably be unemployed in the off-season.
Cyclical Unemployment

- Cyclical unemployment is the increase in unemployment caused by the recession phase of the business cycle.
- Cyclical unemployment increases during recessions and decreases during expansions.
Full Unemployment

- **Full unemployment** occurs when there is no cyclical unemployment; relatively low unemployment.
- Even when the economy is at full employment, there will be some frictional, structural, and seasonal unemployment.
Problems with Official Unemployment Estimates

- Ignores discouraged workers
- Ignores underemployment
The Cost and Measure of Unemployment

- Unemployment rate
- Labor force participation rate
- Changes in unemployment rate
- Unemployment for various groups
Unemployment Rate

- The labor force consists of those in the adult population who are either working or looking for work.
- The unemployment rate equals the number unemployed divided by the number in the labor force.
Labor Force Participation Rate

- The labor force participation rate equals the number in the labor force divided by the adult population.
U.S. Unemployment Rate Since 1900

![Graph showing U.S. unemployment rate from 1900 to 2000, with periods of recession or depression indicated by pink bars.](image-url)
Unemployment for Various Groups

Unemployment rates are higher
- Among blacks than among whites
- Among teenagers than among those aged 20 and older
Unemployment Benefits

- Social Security Act of 1935
- **Unemployment benefits**—cash transfers to unemployed workers who actively seek work and who meet other qualifications.
Unemployment Benefits and Work Incentives

Unemployment benefits

- May reduce the incentive to find work
- Allow for a more careful job search
- Allow the unemployed to continue to spend
LESSON 13.2
Inflation

- Describe the types of inflation, and identify two sources of inflation.
- Identify the problems that unexpected inflation creates.
Key Terms

LESSON 13.2

Inflation

- inflation
- demand-pull inflation
- cost-push inflation
- nominal interest rate
- real interest rate
Inflation Basics

- **Inflation** is an increase in the economy’s general price level.
Types of Inflation

- Hyperinflation—extremely high inflation
- Disinflation—a reduction in the rate of inflation
- Deflation—a decrease in the general price level
Two Sources of Inflation

- **Demand-pull inflation** is inflation resulting from increases in aggregate demand.

- **Cost-push inflation** is inflation stemming from decreases in aggregate supply.
Consumer Price Index Since 1913
Impact of Inflation

- Inflation reduced the value of the dollar and takes away confidence in the value of the dollar over the long term.
Expected Versus Unexpected Inflation

- Arbitrary gains and losses
- Expected inflation is of less concern than unexpected inflation
The Transaction Costs of Unexpected Inflation

- Reduced productivity
- Increased transaction costs of market exchange
Inflation and Interest Rates

- **Nominal interest rate**—the interest rate expressed in current dollars as a percentage of the amount loaned; the interest rate on the loan agreement.

- **Real interest rate**—the interest rate expressed in dollars of constant purchasing power as a percentage of the amount loaned; the nominal interest rate minus the inflation rate.
LESSON 13.3

Economic Instability

- Use aggregate demand and aggregate supply to analyze the Great Depression.
- Use aggregate demand and aggregate supply to analyze demand-side economics.
- Use aggregate demand and aggregate supply to analyze stagflation.
- Use aggregate demand and aggregate supply to analyze supply-side economics.
Key Terms

LESSON 13.3

Economic Instability

- laissez-faire
- demand-side economics
- stagflation
- supply-side economics
The Great Depression and Before

In October 1929, the stock market crashed and began what was to become the deepest economic contraction in the nation’s history.
Decrease in Aggregate Demand

- Stock market crash of 1929, grim business expectations
- A drop in consumer spending
- Widespread bank failures
- A sharp decline in the nation’s money supply
- Severe restrictions on world trade
Laissez-Faire

- **Laissez-faire**—the doctrine that the government should not intervene in a market economy beyond the minimum required to maintain peace and property rights.
From the Great Depression to the Early 1970s

- Stimulating aggregate demand
- Demand-side economics
- World War II and aggregate demand
- The golden age of Keynesian economics

- Reduction in aggregate supply
- Stagflation repeats in 1980
  - fueled partly by another jump in oil prices
Since 1980

- Supply-side economics
  - Macroeconomic policy that focuses on a rightward shift of the aggregate supply curve through tax cuts or other changes that increase production incentives
- Giant federal deficits
LEsson 13.4

Poverty

► Describe the link between jobs, unmarried motherhood, and poverty.
► Identify some unplanned results of income-assistance programs.
Key Terms

LESSON 13.4
Poverty

- cycle of poverty
- welfare reform
Poverty and the Economy

- Poverty and jobs
- Poverty and unemployment
- Unmarried motherhood and poverty
U.S. Poverty Rates by Family Type and Number of Workers

- Male-headed families
- Female-headed families
- Married-couple families
- All families

Percent in poverty

- One or more workers
- No workers
Unplanned Results of Income Assistance

- Why work?
- Long-term dependency
- Cycle of poverty
- Welfare reforms