Activity 18.1
Introduction to Key Economic Indicators

Directions: Read each of the three descriptions below, paying close attention to the economic indicator you have been assigned in your Expert Group. In your Expert Group, work to complete both the Study Guide and Table 18.1 for that indicator. Be prepared to share your findings when you return to your EFI group.

1. The Unemployment Rate[1]

The unemployment rate is the percentage of the United States labor force that is unemployed. It is calculated by dividing the number of unemployed individuals (U) by the sum of the number of people unemployed (U) and the number of people employed (E). This result is then multiplied by 100 to turn the unemployment rate into a percentage:

$$\text{Unemployment Rate} = [U/U+E] \times 100$$

The U.S. labor force equals the number of people who are unemployed added to the number of people who are employed. An individual is counted as *unemployed* if he or she is 16 years old or older and is actively looking for a job, but cannot find one. Students, individuals who choose not to work, and retirees are *not* in the labor force, and therefore not counted in the unemployment rate.

Unemployed workers often do not have sufficient income to support themselves or their families; this can lead to financial challenges, marital problems, and even criminal activity.

State and federal governments provide unemployment compensation (insurance) to some unemployed workers. Because most workers pay the taxes that fund the unemployment compensation, some of the cost of unemployment is spread to employed taxpayers as well.

Increases in unemployment mean that real GDP is lower than it otherwise could be. If more individuals had been employed, the nation's economic output would be higher. Average standards of living are lower as a result of unemployment.

There are *three types of unemployment,* each of which describes the particular circumstances of individuals and their employment situations.

- *Frictional unemployment* is temporary unemployment arising from the normal job search process: it may include people who are seeking better or more convenient jobs, or those who are graduating from school and just entering the job market.

- *Structural unemployment* results from changes in the economy caused by technological progress and long-term shifts in the demand for goods and services. With structural unemployment, some jobs in certain sectors of the economy are eliminated and new jobs are created in faster-growing areas. Persons who are structurally unemployed may lack skills for new types of jobs and may face prolonged periods of unemployment.

- *Cyclical unemployment* is unemployment caused by a general downturn in economic activity. This type of unemployment can hit many different industries during a period of overall economic weakness.

[1] Description created using S. Buckles (2006), "A Case Study: The Unemployment Rate," *EconEdLink*. Accessed at http://econedlink.org/lessons/index.cfm?lesson=EM219&page=teacher on April 20, 2007.

ACTIVITY 18.1, CONTINUED

INTRODUCTION TO KEY ECONOMIC INDICATORS

Study Guide: The Unemployment Rate (fill out the Study Guide in your Expert Group; you will share this information with your EFI group).

1. All people without a job are considered unemployed. (circle one)   TRUE / FALSE

2. The unemployment rate measures_____.

3. The unemployment rate is calculated by_____.

4. Calculate the unemployment rate if:

   U = 7,000,000   E = 145,000,000

   _____.

5. Costs of an increasing unemployment rate:
   -
   -
   -

6. Three types of unemployment:
   -
   -
   -

7. Current unemployment rate:_____.

8. Unemployment rate trend over the last year:_____.