Unemployment and the Phillips curve

Unemployment

- **Difficult to measure**
  - strict definition (look for work)
  - expanded definition (desire to work)

- **Informal sector**
  - those who cannot find employment in formal sector
  - those engaged in illegal activities
  - those who do not want to pay tax
• **Costs of unemployment**
  – costs to individual
  – cost to society

• **Types of unemployment**
  – frictional unemployment
  – seasonal unemployment
  – cyclical (demand-deficiency) unemployment
  – structural unemployment

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**Some causes of structural unemployment**

• Lack of education, training or skills

• Changes in techniques/production methods (technological unemployment)

• Changes in consumer preferences

• Foreign competition

• Structural decline in certain industries

• Discrimination
Policies to reduce unemployment

• *Measures aimed at supply of labour*
  – limit population growth (quantity)
  – improve education, training, skills (quality)

• *Measures aimed at demand for labour*
  – aggregate demand ($C, I, G, X$)
  – increase labour intensity of production
  – special employment programmes
  – stimulate small business, informal sector
  – tax incentives
  – wage subsidies
  – reduce relative price of labour (wage discipline)
  – amend labour legislation
Phillips curve

- Inverse relationship between inflation and unemployment
- Trade-off for policymakers?
- Stable Phillips curve in short run?
- Vertical long-run Phillips curve?

Stagflation in the Phillips curve framework
- Rightward shift of short-run Phillips curve
- Similar to leftward shift of AS curve

A simultaneous increase in inflation and unemployment