

# ECONOMICS

for South African students

*Macroeconomics*

## 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

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## Policies to reduce unemployment

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

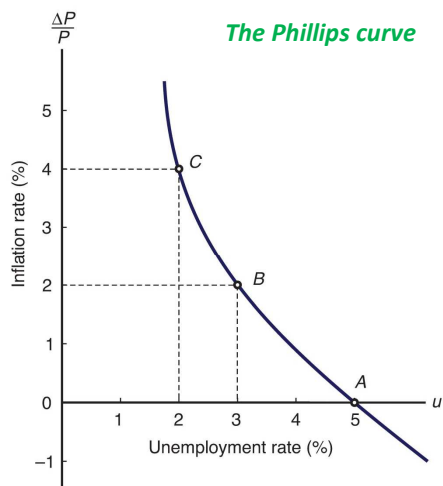
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- *Measures aimed at demand for labour*
  - aggregate demand ( $C, I, G, X$ )
  - increase labour intensity of production
  - special employment programmes
  - stimulate small business, informal sector
  - tax incentives
  - wage subsidies
  - reduce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

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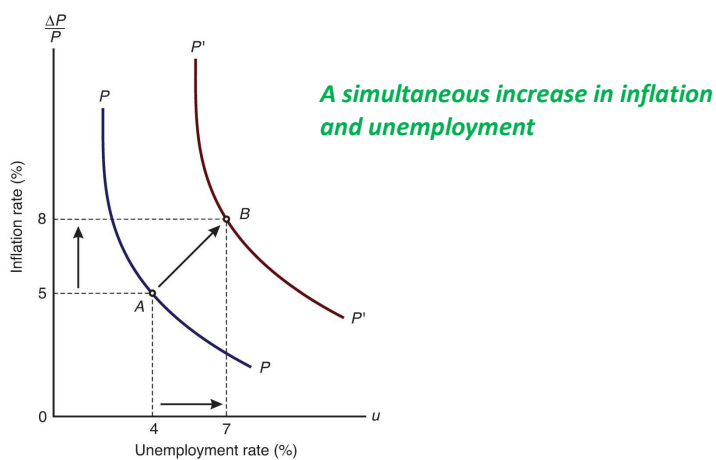
## Phillips curve

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



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- Stagflation in the Phillips curve framework
  - rightward shift of short-run Phillips curve
  - similar to leftward shift of AS curve



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