

## Economic costs of unemployment

- Loss of earnings for the unemployed, leading to lower living standards.
- More difficulty getting work in the future, as the unemployed lose 'on-the-job skills' and may become less attractive to future employers.
- Stress and health problems of being unemployed.
- Increased government borrowing. The government spends more on unemployment and related benefits, and receives less income tax.
- Lower GDP for the economy and possible negative multiplier effect.
- Increased social division between the unemployed and employed.

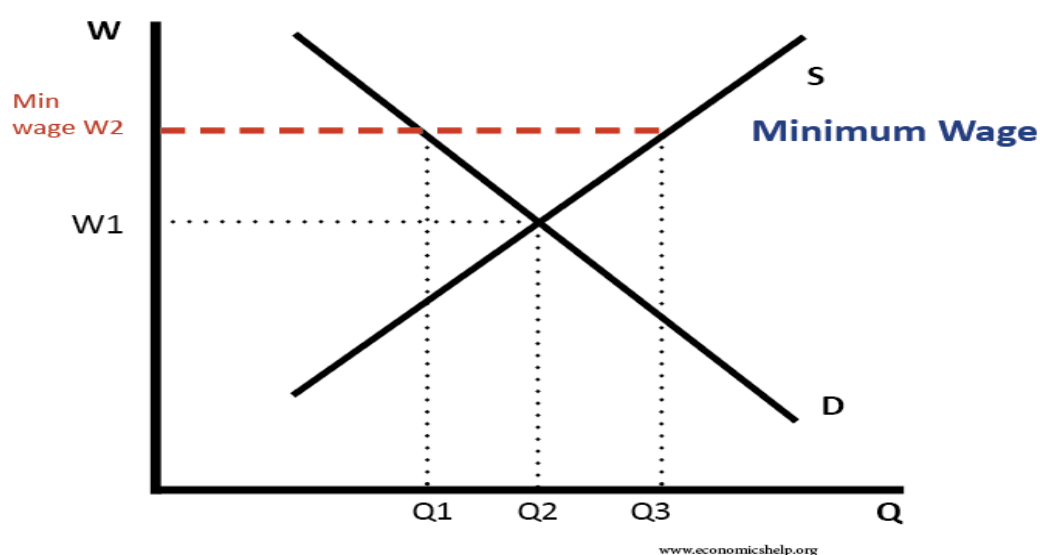
## Causes of unemployment

**1. Frictional unemployment.** This is unemployment caused by people moving between jobs, e.g. graduates or people changing jobs. There will always be some frictional unemployment, as it takes time to find a job.

**2. Structural unemployment.** This is unemployment due to a mismatch of skills in the labour market. It can be caused by:

- **Occupational immobility.** This refers to the difficulties in learning new skills applicable to a new industry. For example, a former manual labourer may find it hard to retrain in a new, high-tech industry.
- **Geographical immobility.** This refers to the difficulty in moving regions to get a job, e.g. someone unemployed in South Wales may find it difficult to move to London, where housing is expensive. We often see higher unemployment in depressed regions.

**3. Classical or real-wage unemployment.** This occurs when wages in a competitive labour market are pushed above the equilibrium. This could be caused by minimum wages or trade unions.



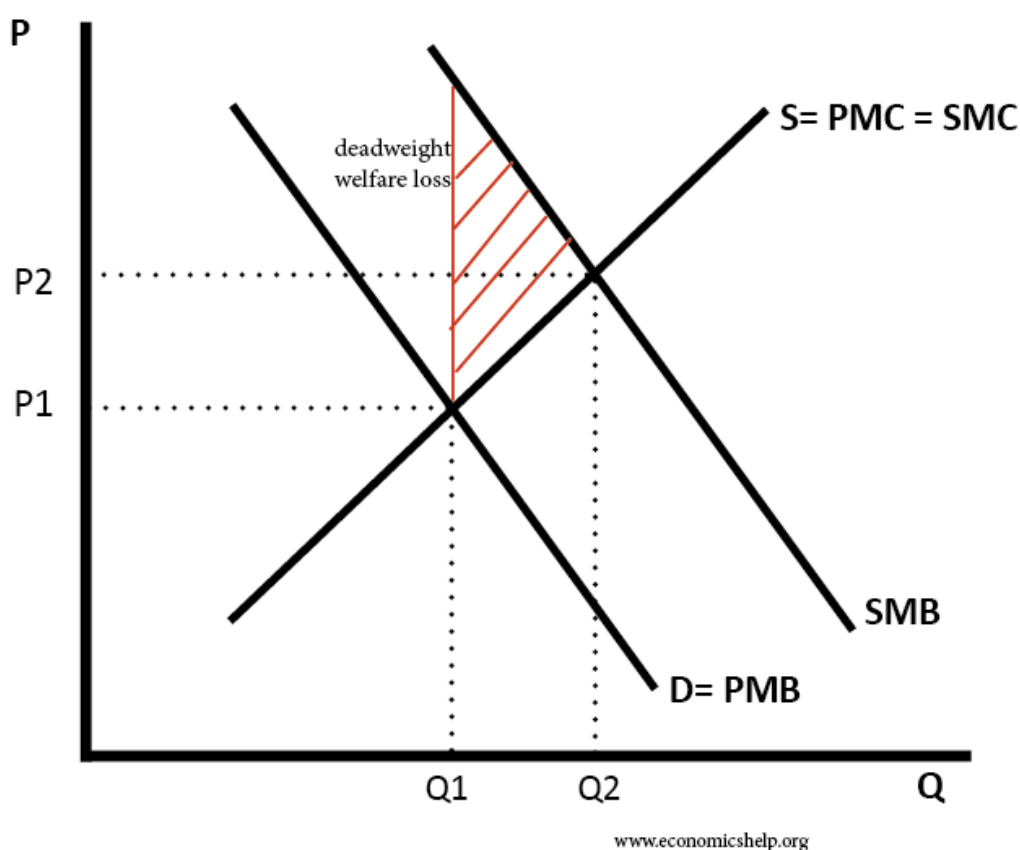
In a competitive labour market, a minimum wage above the equilibrium will cause real-wage unemployment of  $Q3-Q1$ .

## Positive externality

A positive externality in consumption occurs when there is a benefit to a third party from your consumption.

- For example, if you cycle to work (rather than drive), other people benefit from reduced congestion and pollution.

### Diagram of positive externality in consumption



In a free market, the equilibrium will be at  $Q_1, P_1$ , where supply ( $S$ ) = demand ( $D$ ).

- However, this is socially inefficient.
- At  $Q_1$ , the  $SMB$  is greater than the  $SMC$ , leading to an area of deadweight welfare loss.
- With a positive externality, there is **under-consumption**.
- Social efficiency occurs at  $Q_2$ , where  $SMB=SMC$ .

### Positive externality in production

- When producing a good causes a benefit to a third party.
- For example, if you keep bees, then a nearby apple farmer benefits because your bees help to pollinate his apple trees.