

**A**

**Seminar report**

**On**

**Unemployment**

Submitted in partial fulfillment of the requirement for the award of degree  
of MBA

**SUBMITTED TO:**  
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## **Acknowledgement**

I would like to thank respected Mr..... and Mr. ....for giving me such a wonderful opportunity to expand my knowledge for my own branch and giving me guidelines to present a seminar report. It helped me a lot to realize of what we study for.

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## Preface

I have made this report file on the topic **Unemployment**; I have tried my best to elucidate all the relevant detail to the topic to be included in the report. While in the beginning I have tried to give a general view about this topic.

My efforts and wholehearted co-corporation of each and everyone has ended on a successful note. I express my sincere gratitude to .....who assisting me throughout the preparation of this topic. I thank him for providing me the reinforcement, confidence and most importantly the track for the topic whenever I needed it.

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## **Introduction**

**Unemployment** occurs when people are without work and actively seeking work. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. During periods of recession, an economy usually experiences a relatively high unemployment rate. According to International Labour Organization report, more than 197 million people globally or 6% of the world's workforce were without a job in 2012.

There remains considerable theoretical debate regarding the causes, consequences and solutions for unemployment. Classical economics, New classical economics, and the Austrian School of economics argue that market mechanisms are reliable means of resolving unemployment. These theories argue against interventions imposed on the labor market from the outside, such as unionization, bureaucratic work rules, minimum wage laws, taxes, and other regulations that they claim discourage the hiring of workers.

Keynesian economics emphasizes the cyclical nature of unemployment and recommends government interventions in the economy that it claims will reduce unemployment during recessions. This theory focuses on recurrent shocks that suddenly reduce aggregate demand for goods and services and thus reduce demand for workers. Keynesian models recommend government interventions designed to increase demand for workers; these can include financial stimuli, publicly funded job creation, and expansionist monetary policies. Keynes believed that the root cause of unemployment is the desire of investors to receive more money rather than produce more products, which is not possible without public bodies producing new money.

In addition to these comprehensive theories of unemployment, there are a few categorizations of unemployment that are used to more precisely model the effects of unemployment within the economic system. The main types of unemployment include structural unemployment which focuses on structural problems in the economy and inefficiencies inherent in labour markets, including a mismatch between the supply and demand of laborers with necessary skill sets. Structural arguments emphasize causes and solutions related to disruptive technologies and globalization. Discussions of frictional unemployment focus on voluntary decisions to work based on each individuals' valuation of their own work and how that compares to current wage rates plus the time and effort required to find a job. Causes and solutions for frictional unemployment often address job entry threshold and wage rates. Behavioral economists highlight individual biases in decision making, and often involve problems and solutions concerning sticky wages and efficiency wages.

## **Types of Unemployment**

There are three main types of unemployment: structural, frictional and cyclical. The first two make up the natural unemployment rate, while the third rises when demand falls, usually during a recession. Some economists include as many as five types of unemployment, such as seasonal and classical. See how this worked in U.S. history in Unemployment by Year.

Here's the different types of unemployment with links to more detailed articles so you can be sure to tell them apart. Also, find out how unemployment is measured, and why some experts say it doesn't capture the real unemployment rate.

### **Frictional Unemployment**

The easiest type of unemployment to explain is known as *frictional unemployment*. Frictional unemployment is unemployment that occurs because it takes workers some time to move from one job to another. While it may be the case that some workers find new jobs before they leave their old ones, a lot of workers leave or lose their jobs before they have other work lined up. In these cases, a worker must look around for a job that it is a good fit for her, and this process takes some time. During

this time, the individual is considered to be unemployed, but unemployment due to frictional unemployment is usually thought to last only short periods of time and not be specifically problematic from an economic standpoint. This is particularly true now that technology is helping both workers and companies make the job search process more efficient.

Frictional unemployment can also occur when students move into the work force for the first time, when an individual moves to a new city and needs to find work, and when women re-enter the work force after having children. (Note in the last case, however, that maternity leave doesn't count as unemployment!)

### **Cyclical Unemployment**

It's probably not surprising that unemployment is higher during recessions and depressions and lower during periods of high economic growth. Because of this, economists have coined the term *cyclical unemployment* to describe the unemployment associated with business cycles occurring in the economy. Cyclical unemployment occurs during recessions because, when demand for goods and services in an economy falls, some companies respond by cutting production and laying off workers rather than by reducing wages and prices. (Wages and prices of this sort are referred to as "sticky.") When this happens, there are more workers in an economy than there are available jobs, and unemployment must result.

As an economy recovers from a recession or depression, cyclical unemployment tends to naturally disappear. As a result, economists usually focus on addressing the root causes of the economic downturns themselves rather than think directly about how to correct cyclical unemployment in and of itself.

## Structural Unemployment

There are two ways to think about *structural unemployment*. One way is that structural unemployment occurs because some labor markets have more workers than there are jobs available, and for some reason wages don't decrease to bring the markets into equilibrium. Another way to think about structural unemployment is that structural unemployment results when workers possess skills that aren't in high demand in the marketplace and lack skills that are in high demand. In other words, structural unemployment results when there is a mismatch with workers' skills and employers' needs. Structural unemployment is thought to be a pretty significant problem, mainly because structural unemployment tends to be largely of the long-term variety and retraining workers is not a cheap or easy task.

*Seasonal unemployment* is, not surprisingly, unemployment that occurs because the demand for some workers varies widely over the course of the year. (Pool lifeguards, for example, probably experience a decent amount of seasonal unemployment.) Seasonal unemployment can be thought of as a form of structural unemployment, mainly because the skills of the seasonal employees are not needed in certain labor markets for at least some part of the year. That said, seasonal unemployment is viewed as less problematic than regular structural unemployment, mainly because the demand for seasonal skills hasn't gone away forever and resurfaces in a fairly predictable pattern.

## Seasonal Unemployment

Some sources include seasonal unemployment as a fourth type of unemployment. It is part of natural unemployment. Like its name says, seasonal unemployment results from regular changes in the season. Workers who may be affected by seasonal unemployment include resort workers, ski instructors and ice cream vendors. It could also include people who harvest crops. Construction workers are laid off in the winter, in most parts of the country. School employees can also be considered seasonal workers.

The BLS does not measure seasonal unemployment. Instead, it adjusts its unemployment estimates to rule out seasonal factors. This gives a more accurate estimate of the unemployment rate.

## Classical Unemployment

Classical unemployment, also known as real wage unemployment or induced unemployment, is when wages are higher than the laws of supply and demand would normally dictate. It usually occurs in three situations:

1. Unions negotiate higher salaries and benefits.
2. Long-term contracts set a wage that may wind up being too high if there is a recession and everyone else's salary falls.
3. The government sets a minimum wage that's too high.

The result is that companies must pay more per employee, so they can afford fewer employees. Those that are laid off are victims of classical unemployment.

## **COSTS OF UNEMPLOYMENT**

### A. Economic Costs

1. For the individual, the greatest economic cost of unemployment is lost income.
2. For society, the greatest economic cost of unemployment is the decrease in goods and services that occurs as a result of the unemployment.

### B. Noneconomic Costs

1. For the individual, noneconomic costs include adverse effects on mental and physical health, adverse effects on the family, higher rates of alcoholism and drug abuse, and higher crime and suicide rates.

## **Causes of Unemployment**

The government defines those who want to work as people who have actively looked for work within the past four weeks, and determines the number of people currently unemployed through a monthly survey called the 'Current Population Survey.'

People can be unemployed for many reasons:

- They quit their position and are looking for a new one.
- They were laid off due to lack of work and haven't yet been rehired.
- Their company reduced the work force, and they are seeking a new position. This can be due to a local condition, when the company closes a plant or division, or a national condition, when the economy slows and many companies reduce their work force.
- They have recently returned to the work force - perhaps from pregnancy or attending school - and haven't yet located a position.
- The need for their skill set has gone down, and there are limited positions available, which may lead to unemployment until they train for a new position.
- Technology has reduced the need for their type of position.



## Measurement

There are also different ways national statistical agencies measure unemployment. These differences may limit the validity of international comparisons of unemployment data. To some degree these differences remain despite national statistical agencies increasingly adopting the definition of unemployment by the International Labour Organization. To facilitate international comparisons, some organizations, such as the OECD, Eurostat, and International Labor Comparisons Program, adjust data on unemployment for comparability across countries.

Though many people care about the number of unemployed individuals, economists typically focus on the unemployment rate. This corrects for the normal increase in the number of people employed due to increases in population and increases in the labour force relative to the population. The unemployment rate is expressed as a percentage, and is calculated as follows:

$$\text{Unemployment rate} = \frac{\text{Unemployed workers}}{\text{Total labor force}} * 100\%$$

As defined by the International Labour Organization, "unemployed workers" are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work. Individuals who are actively seeking job placement must make the effort to: be in contact with an employer, have job interviews, contact job placement agencies, send out resumes, submit applications, respond to advertisements, or some other means of active job searching within the prior four weeks. Simply looking at advertisements and not responding will not count as actively seeking job placement. Since not all unemployment may be "open" and counted by government agencies, official statistics on unemployment may not be accurate. In the United States, for example, the unemployment rate does not take into consideration those individuals who are not actively looking for employment, such as those still attending college.

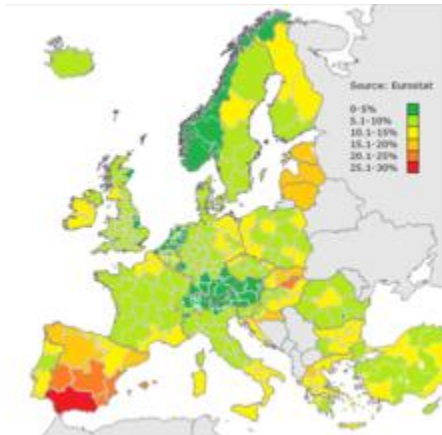
The ILO describes 4 different methods to calculate the unemployment rate:

- *Labour Force Sample Surveys* are the most preferred method of unemployment rate calculation since they give the most comprehensive results and enables calculation of unemployment by different group categories such as race and gender. This method is the most internationally comparable.
- *Official Estimates* are determined by a combination of information from one or more of the other three methods. The use of this method has been declining in favor of Labour Surveys.
- *Social Insurance Statistics* such as unemployment benefits, are computed base on the number of persons insured representing the total labour force and the number of persons who are insured that are collecting benefits. This method has been heavily criticized due to the expiration of benefits before the person finds work.
- *Employment Office Statistics* are the least effective being that they only include a monthly tally of unemployed persons who enter employment offices. This method also includes unemployed who are not unemployed per the ILO definition.

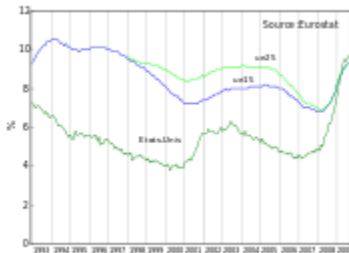
The primary measure of unemployment, U3, allows for comparisons between countries. Unemployment differs from country to country and across different time periods. For example, during the 1990s and 2000s, the United States had lower unemployment levels than many countries in the European Union, which had significant internal variation, with countries like the UK and Denmark outperforming Italy and France. However, large economic events such as the Great Depression can lead to similar unemployment rates across the globe.

## European Union (Eurostat)

Further information: List of sovereign states in Europe by unemployment rate



Unemployment in the regions of the European Union in 2010, according to Eurostat.



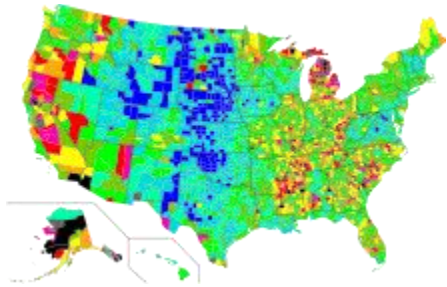
Unemployment rates from 1993–2009 for United States and European Union.

Eurostat, the statistical office of the European Union, defines unemployed as those persons age 15 to 74 who are not working, have looked for work in the last four weeks, and ready to start work within two weeks, which conform to ILO standards. Both the actual count and rate of unemployment are reported. Statistical data are available by member state, for the European Union as a whole (EU28) as well as for the euro area (EA19). Eurostat also includes a long-term unemployment rate. This is defined as part of the unemployed who have been unemployed for an excess of 1 year.

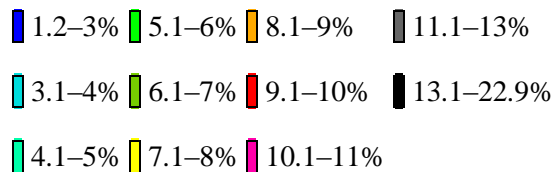
The main source used is the European Union Labour Force Survey (EU-LFS). The EU-LFS collects data on all member states each quarter. For monthly calculations, national surveys or

national registers from employment offices are used in conjunction with quarterly EU-LFS data. The exact calculation for individual countries, resulting in harmonized monthly data, depend on the availability of the data.

## United States Bureau of Labor statistics



Unemployment rate in the U.S. by county in 2008.



The Bureau of Labor Statistics measures employment and unemployment (of those over 15 years of age) using two different labour force surveys conducted by the United States Census Bureau (within the United States Department of Commerce) and/or the Bureau of Labor Statistics (within the United States Department of Labor) that gather employment statistics monthly. The Current Population Survey (CPS), or "Household Survey", conducts a survey based on a sample of 60,000 households. This Survey measures the unemployment rate based on the ILO definition.

The Current Employment Statistics survey (CES), or "Payroll Survey", conducts a survey based on a sample of 160,000 businesses and government agencies that represent 400,000 individual employers. This survey measures only civilian nonagricultural employment; thus, it does not calculate an unemployment rate, and it differs from the ILO unemployment rate definition. These two sources have different classification criteria, and usually produce differing results. Additional data are also available from the government, such as the unemployment insurance weekly claims report available from the Office of Workforce Security, within the U.S. Department of Labor Employment & Training Administration. The Bureau of Labor Statistics provides up-to-date numbers via a PDF linked here. The BLS also provides a readable concise current Employment Situation Summary, updated monthly.



U1–U6 from 1950–2010, as reported by the Bureau of Labor Statistics

The Bureau of Labor Statistics also calculates six alternate measures of unemployment, U1 through U6, that measure different aspects of unemployment:

- U1: Percentage of labor force unemployed 15 weeks or longer.
- U2: Percentage of labor force who lost jobs or completed temporary work.
- U3: Official **unemployment rate** per the ILO definition occurs when people are without jobs and they have actively looked for work within the past four weeks.
- U4: U3 + "discouraged workers", or those who have stopped looking for work because current economic conditions make them believe that no work is available for them.
- U5: U4 + other "marginally attached workers", or "loosely attached workers", or those who "would like" and are able to work, but have not looked for work recently.
- U6: U5 + Part-time workers who want to work full-time, but cannot due to economic reasons (underemployment).

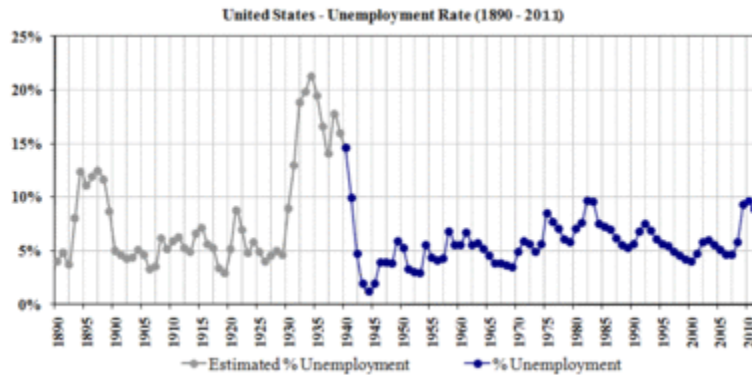
*Note: "Marginally attached workers" are added to the total labour force for unemployment rate calculation for U4, U5, and U6. The BLS revised the CPS in 1994 and among the changes the measure representing the official unemployment rate was renamed U3 instead of U5. In 2013, Representative Hunter proposed that the Bureau of Labor Statistics use the U5 rate instead of the current U3 rate.*

Statistics for the U.S. economy as a whole hide variations among groups. For example, in January 2008 U.S. unemployment rates were 4.4% for adult men, 4.2% for adult women, 4.4% for Caucasians, 6.3% for Hispanics or Latinos (all races), 9.2% for African Americans, 3.2% for Asian Americans, and 18.0% for teenagers. Also, the U.S. unemployment rate would be at least 2% higher if prisoners and jail inmates were counted.

The unemployment rate is included in a number of major economic indexes including the United States' Conference Board's Index of Leading Indicators a macroeconomic measure of the state of the economy.



Estimated U.S. Unemployment rate from 1800–1890. All data are estimates based on data compiled by Lebergott. See limitations section below regarding how to interpret unemployment statistics in self-employed, agricultural economies. See image info for complete data.



Estimated U.S. Unemployment rate from 1890–2011. 1890–1930 data are from Romer. 1930–1940 data are from Coen. 1940–2011 data are from Bureau of Labor Statistics. See image info for complete data.

## Alternatives

### *Limitations of the unemployment definition*

Some critics believe that current methods of measuring unemployment are inaccurate in terms of the impact of unemployment on people as these methods do not take into account the 1.5% of the available working population incarcerated in U.S. prisons (who may or may not be working while incarcerated), those who have lost their jobs and have become discouraged over time from actively looking for work, those who are self-employed or wish to become self-employed, such as tradesmen or building contractors or IT consultants, those who have retired before the official retirement age but would still like to work (involuntary early retirees), those on disability pensions who, while not possessing full health, still wish to work in occupations suitable for their medical conditions, those who work for payment for as little as one hour per week but would like to work full-time.

These people are "involuntary part-time" workers, those who are underemployed, e.g., a computer programmer who is working in a retail store until he can find a permanent job, involuntary stay-at-home mothers who would prefer to work, and graduate and Professional school students who were unable to find worthwhile jobs after they graduated with their Bachelor's degrees.



A government unemployment office with job listings, Berlin, Germany, 1982.

Internationally, some nations' unemployment rates are sometimes muted or appear less severe due to the number of self-employed individuals working in agriculture. Small independent farmers are often considered self-employed; so, they cannot be unemployed. The impact of this is that in non-industrialized economies, such as the United States and Europe during the early 19th century, overall unemployment was approximately 3% because so many individuals were self-employed, independent farmers; yet, unemployment outside of agriculture was as high as 80%.

Many economies industrialize and experience increasing numbers of non-agricultural workers. For example, the United States' non-agricultural labour force increased from 20% in 1800, to 50% in 1850, to 97% in 2000. The shift away from self-employment increases the percentage of the population who are included in unemployment rates. When comparing unemployment rates between countries or time periods, it is best to consider differences in their levels of industrialization and self-employment.

Additionally, the measures of employment and unemployment may be "too high". In some countries, the availability of unemployment benefits can inflate statistics since they give an incentive to register as unemployed. People who do not really seek work may choose to declare themselves unemployed so as to get benefits; people with undeclared paid occupations may try to get unemployment benefits in addition to the money they earn from their work.

However, in countries such as the United States, Canada, Mexico, Australia, Japan and the European Union, unemployment is measured using a sample survey (akin to a Gallup poll). According to the BLS, a number of Eastern European nations have instituted labour force surveys as well. The sample survey has its own problems because the total number of workers in the economy is calculated based on a sample rather than a census.

It is possible to be neither employed nor unemployed by ILO definitions, i.e., to be outside of the "labour force." These are people who have no job and are not looking for one. Many of these are going to school or are retired. Family responsibilities keep others out of the labour force. Still others have a physical or mental disability which prevents them from participating in labour force activities. And of course some people simply elect not to work, preferring to be dependent on others for sustenance.

Typically, employment and the labour force include only work done for monetary gain. Hence, a homemaker is neither part of the labour force nor unemployed. Nor are full-time students nor prisoners considered to be part of the labour force or unemployment. The latter can be important. In 1999, economists Lawrence F. Katz and Alan B. Krueger estimated that increased incarceration lowered measured unemployment in the United States by 0.17% between 1985 and the late 1990s.

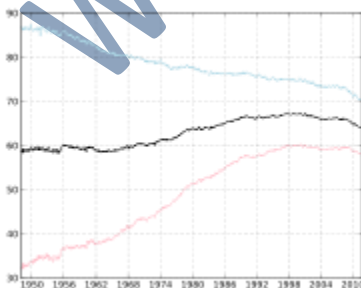
In particular, as of 2005, roughly 0.7% of the U.S. population is incarcerated (1.5% of the available working population). Additionally, children, the elderly, and some individuals with disabilities are typically not counted as part of the labour force in and are correspondingly not included in the unemployment statistics. However, some elderly and many disabled individuals are active in the labour market

In the early stages of an economic boom, unemployment often rises. This is because people join the labour market (give up studying, start a job hunt, etc.) because of the improving job market, but until they have actually found a position they are counted as unemployed. Similarly, during a recession, the increase in the unemployment rate is moderated by people leaving the labour force or being otherwise discounted from the labour force, such as with the self-employed.

For the fourth quarter of 2004, according to OECD, (source Employment Outlook 2005 ISBN 92-64-01045-9), normalized unemployment for men aged 25 to 54 was 4.6% in the U.S. and 7.4% in France. At the same time and for the same population the employment rate (number of workers divided by population) was 86.3% in the U.S. and 86.7% in France. This example shows that the unemployment rate is 60% higher in France than in the U.S., yet more people in this demographic are working in France than in the U.S., which is counterintuitive if it is expected that the unemployment rate reflects the health of the labour market.

Due to these deficiencies, many labour market economists prefer to look at a range of economic statistics such as labour market participation rate, the percentage of people aged between 15 and 64 who are currently employed or searching for employment, the total number of full-time jobs in an economy, the number of people seeking work as a raw number and not a percentage, and the total number of person-hours worked in a month compared to the total number of person-hours people would like to work. In particular the NBER does not use the unemployment rate but prefer various employment rates to date recessions.

### *Labor force participation rate*



The United States Labor Force Participation Rate by gender 1948–2011. Men are represented in light blue, women in pink, and the total in black.

The labor force participation rate is the ratio between the labor force and the overall size of their cohort (national population of the same age range). In the West during the later half of the 20th century, the labor force participation rate increased significantly, largely due to the increasing number of women entering the workplace.

In the United States, there were three significant stages of women's increased participation in the labor force. During the late 19th century through the 1920s, very few women worked outside the home. They were young single women who typically withdrew from labor force at marriage unless family needed two incomes. These women worked primarily in the textile manufacturing industry or as domestic workers. This profession empowered women and allowed them to earn a living wage. At times, they were a financial help to their families.

Between 1930 and 1950, women labor force participation has increased primarily due to the increased demand for office workers, women participation in the high school movement, and due to electrification which reduced the time spent on household chores. In the 1950s to the 1970s, most women were secondary earners working mainly as secretaries, teachers, nurses, and librarians (pink-collar jobs).

Claudia Goldin and others, specifically point that by the mid-1970s there was a period of revolution of women in the labor force brought on by a source of different factors. Women more accurately planned for their future in the work force, investing in more applicable majors in college that prepared them to enter and compete in the labor market. In the United States, the labor force participation rate rose from approximately 59% in 1948 to 66% in 2005, with participation among women rising from 32% to 59% and participation among men declining from 87% to 73%.

A common theory in modern economics claims that the rise of women participating in the U.S. labor force in the late 1960s was due to the introduction of a new contraceptive technology, birth control pills, and the adjustment of age of majority laws. The use of birth control gave women the flexibility of opting to invest and advance their career while maintaining a relationship. By having control over the timing of their fertility, they were not running a risk of thwarting their career choices. However, only 40% of the population actually used the birth control pill.

This implies that other factors may have contributed to women choosing to invest in advancing their careers. One factor may be that more and more men delayed the age of marriage, allowing women to marry later in life without worrying about the quality of older men. Other factors include the changing nature of work, with machines replacing physical labor, eliminating many traditional male occupations, and the rise of the service sector, where many jobs are gender neutral.

Another factor that may have contributed to the trend was The Equal Pay Act of 1963, which aimed at abolishing wage disparity based on sex. Such legislation diminished sexual



discrimination and encouraged more women to enter the labor market by receiving fair remuneration to help raising families and children.

At the turn of the 21st century the labor force participation began to reverse its long period of increase. The biggest drop occurring over the period from 2007 to 2011 where participation declined from 66% to 64.1%. Roughly half of this decline can be attributed to cyclical factors and half to long-term trend factors. These long-term trend factors include a rising share of older workers and an increase in school enrollment rates among young workers.

The labor force participation rate can decrease when the rate of growth of the population outweighs that of the employed and unemployed together. The labor force participation rate is a key component in long-term economic growth, almost as important as productivity.

Participation rates are defined as follows:

Pop = total population

LFpop = labor force population

(generally defined as all men and women aged 15–64)

E = number employed

U = number of unemployed

LF = labor force = U + E

p = participation rate = LF / LFPop

e = rate of employment = E / LFpop

u = rate of unemployment = U / LF

The labor force participation rate explains how an increase in the unemployment rate can occur simultaneously with an increase in employment. If a large amount of new workers enter the labor force but only a small fraction become employed, then the increase in the number of unemployed workers can outpace the growth in employment.

### ***Unemployment ratio***

The unemployment ratio calculates the share of unemployed for the whole population. Particularly many young people between 15 and 24 are studying full-time and are therefore neither working nor looking for a job. This means they are not part of the labour force which is used as the denominator for calculating the unemployment rate. The youth unemployment ratios in the European Union range from 5.2 (Austria) to 20.6 percent (Spain). These are considerably lower than the standard youth unemployment rates, ranging from 7.9 (Germany) to 57.9 percent (Greece)

## **Solutions to Unemployment problem**

Attempts to reduce the level of unemployment beyond the Natural rate of unemployment generally fail, resulting only in less output and more inflation. However the following ways may reduce unemployment.

### **Phillips Curve**

It used to be largely believed that unemployment could be solved using the Phillips curve. This involves increasing inflation to reduce unemployment by fooling workers into accepting jobs at a lower rate than they would otherwise have done, due to the declining value of money. However, since the work of Milton Friedman, it is widely accepted that the Phillips curve is vertical in the long run: you cannot achieve a lowering of the unemployment rate in the long run, and attempts to do so will only cause inflation.

### **Demand side policies**

Monetary policy and fiscal policy can both be used to increase short-term growth in the economy, increasing the demand for labour and decreasing unemployment. The demand for labour in an economy is derived from the demand for goods and services. As such, if the demand for goods and services in the economy increases, the demand for labour will increase, increasing employment and wages.

### **Supply side policies**

Minimum wages and union activity keep wages from falling, which means too many people want to sell their labour at the going price but cannot. Supply-side policies can solve this by making the labour market more flexible. These include removing the minimum wage and reducing the power of unions, which act as a labour cartel.

Other supply side policies include education to make workers more attractive to employers. Cutting taxes on businesses and reducing regulation, create jobs and reduce unemployment.

### **Shifting tax burden**

This method will shift tax burden to capital intensive firms and away from labour intensive firms. In theory this will make firms shift operations to a more politically desired balance between labour intensive and capital intensive production. The excess tax revenue from the jobs levy would finance labour intensive public projects. However, by raising the value of labour artificially above capital, this would discourage capital investment, the source of economic growth. With less growth, long-run employment would fall.

**Reference**

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