ECON FOCUS
READING Q&A

JARGON ALERT: Full Employment

After reading the article (https://www.richmondfed.org/-/media/richmondfedorg/publications/research/econ_focus/2013/q2/pdf/jargon_alert.pdf) answer the following questions:

1. Why is full employment not equal to zero unemployment?

2. What are the key differences between frictional and structural unemployment?

3. According to Milton Friedman and Edmund Phelps, what is the effect of policies that try to achieve an unemployment rate below the national rate?

4. What can cause the level of full employment to change over time?

5. Former Fed Chair Bernanke felt that attempting to implement a specific employment target could "compromise the FOMC's longer-term inflation objective." Why did the FOMC choose not to have an employment target?

GLOSSARY

Frictional unemployment: Unemployment that results when people are new to the job market (for example, recent graduates) or are transitioning from one job to another.

Full employment: The lowest possible unemployment rate in a growing economy with all factors of production used efficiently as possible.

Inflation: A general, sustained upward movement of prices for goods and services in an economy.

Labor: The quantity and quality of human effort directed toward producing goods and services. Also known as human resources.

Labor market: The exchange of labor by workers who want to sell labor and businesses that want to purchase labor (also known as the job market).

Phillips Curve: An economic model indicating an inverse relationship between the rate of inflation and the rate of unemployment.

Productivity: The ratio of output per worker per unit of time.

Structural unemployment: Unemployment that results from a mismatch in the supply and demand of workers at a particular wage.

Unemployment: A condition where people at least 16 years old are without jobs and actively seeking work.

Unemployment rate: The percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for employment.