3.2 & 3.4 Unemployment and Inflation

Key Words

Employment	THe use of labour in the economy to produce goods and services
Unemployment	People of working age who are willing and able to work at the current wage rate but are unable to find employment.
Claimant Count	The method of measuring unemployment according to the number of people who are claiming unemployment benefits.
Structural unemployment	Unemployment caused by a permanent decline in an industry.
Inflation	Sustained rise in the general price level over time.
Rate of inflation	The percentage rise in the price level over time
Cost of Living	The price level of goods and services bought by the average family
Price stability	When the general level of prices stays constant or grows at an acceptably slow rate
CPI	Consumer Price Index - method to calculate the rate of inflation.
Nominal values	The value of something in monetary terms without considering inflation
Real values	Take inflation into account

What is unemployment?

This is when people who are willing and able to work can't find employment.

This does not include people such as pensioners, full-time students, and stay at home parents as they are choosing not to be employed.

How is unemployment measured?

Claimant Count - Measuring unemployment according to the number of people who are claiming unemployment benefits.

Structural Unemployment

This is when unemployment is caused by a decline in industry. An example of this in the UK is within the rail industry. Where unemployment has been caused by the introduction of technology which can do some of the jobs previously done by people.

What is inflation?

Inflation is the sustained rise in the general price level in the economy over time, so there is an increase in the cost of living.

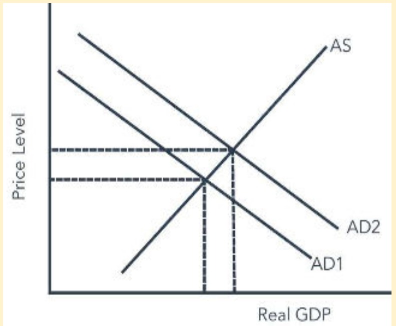
How is inflation measured?

Inflation is measured using the consumer price index(CPI). This is calculated by measuring the price of a basket of goods and services used by the average household. The government then measures the change in the price of that basket.

Causes of inflation - demand pull

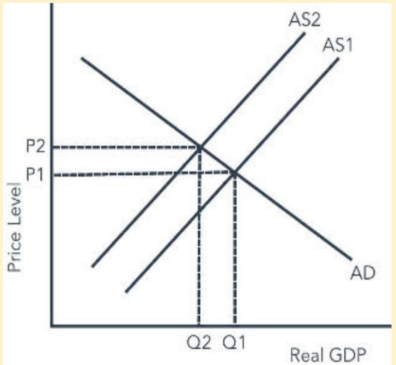
This is when demand in the economy rises and the supply of goods and services does not increase to match the increase in demand, therefore prices are pulled up. This can be caused by:

- Increased consumer demand due to high levels of employment and income
- Increased demand from firms demanding capital goods for investment
- Consumers in foreign countries buying exported goods and services
- The government spending more for example on education and healthcare.



Causes of inflation - cost push

- Higher costs of production lead to a rise in the price level. The main cost of production for most firms is wages and salaries.
- Higher costs can be caused by higher import prices (imported inflation)
- However inflation initially occurs, it can lead to a wage-price spiral. As cost of living increases, workers demand higher wages, pushing costs of production up, leading to cost push inflation.



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