The Unemployment Rate

Lesson Overview
This lesson looks at the U.S. unemployment rate, how it is measured, the intent of the data collection, the data announcement by the Bureau of Labor Statistics, and its real meaning to various demographic groups.

Students will identify the key labor force data that is included in the determination of the unemployment rate. They will look at several alternative unemployment rate definitions and formulas. Then, they will determine whether or not the commonly announced “headline” unemployment rate accurately reflects the health of the U.S. labor market and the economy.

Lesson Introduction
Each month, the U.S. Bureau of Labor Statistics (BLS) releases data from the monthly "Household Survey" conducted by the Bureau of the Census, providing a comprehensive body of information on the employment and unemployment experience of the U.S. population, classified by age, sex, race, and a variety of other characteristics.

The BLS also conducts the Current Employment Statistics (CES) program, surveying about 150,000 businesses and government agencies, representing approximately 390,000 individual work sites, in order to provide detailed industry data on employment, hours, and earnings of workers on nonfarm payrolls.

The BLS compiles information from these sources and announces the monthly "Employment Situation," reporting the current U.S. employment and unemployment data estimates. The monthly announcement reports employment data from the previous full month.

The monthly BLS announcement provides a rate of unemployment for the U.S. and an estimate of the change in the level of employment from month-to-month or year-to-year. The data also includes the estimated number of unemployed persons by demographic group and the number of employed persons by industry.

In addition, the BLS report will estimate numbers of persons who are “not in the labor force,” the numbers of persons who are unemployed for various reasons, and numbers of people who are “marginally attached” to the labor force.

The BLS actually provides six “alternative” measurements of unemployment, ranging from just those unemployed for fifteen weeks or longer (U-1) to the total of all unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, and all marginally attached workers (U-6).
Key Terms in this Lesson
(Bureau of Labor Statistics Definitions)

Employed persons: Persons 16 years and over in the civilian non-institutional population who, during the reference week, (a) did any work at all (at least 1 hour) as paid employees; worked in their own business, profession, or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of the family; and (b) all those who were not working but who had jobs or businesses from which they were temporarily absent because of vacation, illness, bad weather, childcare problems, maternity or paternity leave, labor-management dispute, job training, or other family or personal reasons, whether or not they were paid for the time off or were seeking other jobs. Each employed person is counted only once, even if he or she holds more than one job. Excluded are persons whose only activity consisted of work around their own house (painting, repairing, or own home housework) or volunteer work for religious, charitable, and other organizations.

Unemployed persons: Persons aged 16 years and older who had no employment during the reference week, were available for work, except for temporary illness, and had made specific efforts to find employment sometime during the 4-week period ending with the reference week. Persons who were waiting to be recalled to a job from which they had been laid off need not have been looking for work to be classified as unemployed.

Unemployment rate: The number unemployed persons as a percent of the labor force.

Labor force: The labor force includes all persons classified as employed or unemployed in accordance with the BLS definitions.

Labor force participation rate: The labor force as a percent of the civilian non-institutional population.

Not in the labor force: Persons aged 16 years and older in the civilian non-institutional population who are neither employed nor unemployed in accordance with the definitions contained in this glossary. Information is collected on their desire for and availability for work, job search activity in the prior year, and reasons for not currently searching.

Marginally attached workers: Persons not in the labor force who want and are available for work, and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Discouraged workers are a subset of the marginally attached.
Discouraged workers: Persons not in the labor force who want and are available for a job and who have looked for work sometime in the past 12 months (or since the end of their last job if they held one within the past 12 months), but who are not currently looking because they believe there are no jobs available or there are none for which they would qualify.

NOTE: Unless otherwise cited, the definitions of labor market terms used in this lesson are from with the glossary of the Bureau of Labor Statistics. Economic terms definitions are from the Council for Economic Education’s Virtual Economics program. They are consistent with the National Voluntary Content Standards in Economics and the Ohio Academic Content Standards for Social Studies.

Read More about the Unemployment Rate


The Bureau of Labor Statistics of the U.S. Department of Labor is the principal Federal agency responsible for measuring labor market activity, working conditions, and price changes in the economy. Its mission is to collect, analyze, and disseminate essential economic information to support public and private decision-making.


What Are Leading Economic Indicators?| eHow.com http://www.ehow.com/about_5434079_leading-economic-indicators.html#ixzz1z0Gv4470

Lesson Objectives

The student will:

1. Identify the source and data determining the U.S. unemployment rate.
2. Given appropriate data, determine a nation’s unemployment rate.
3. Identify common criticisms of the meaning of the reported unemployment rate.
4. Suggest how the process of the determination of the unemployment rate can be improved.
Lesson Materials

Handout/Visual 1: *The Circular Flow Model of the Economy*

Handout/Visual 2: *Why It Matters: Were You Counted This Summer?*

Handout/Visual 3: *Labor Market Data Definitions*

Handout/Visual 4: *Alternative Measures of Labor Underutilization*

Lesson Preparation

Prepare visuals to project or print copies of the Handout/Visuals for each student:

- Handout/Visuals, 1-4

Lesson Procedures

1. Ask: How do you think it affects a country and its economy when a large number of people (potential workers) are unemployed?

   [Elicit the students’ initial thoughts about the impact of unemployment. Typically, they may talk about the impact on individuals – loss of income, debt, not being able to pay bills, etc. They may suggest less consumption and slower economic growth.]

2. To move the discussion to the impact on the broader economy, ask: when a large number of people have less income, how does this affect other people in the economy?

   [When some people have less income, they purchase fewer goods and services. When fewer goods and services are purchased, companies will choose to produce fewer goods and services. When companies perceive that fewer goods and services will be purchased, they will not invest in new productive capacity and will not hire more workers. This creates a “circular” problem – bad news causing more bad news.]


   Explain that the circular flow model is a representation of a market economy that shows the relationships between the producer and consumer sectors and the factor and product markets.
The circular flow model shows the relationships of the markets and sectors, but not the size of an economy or the level of growth. Generally, as more productive resources (factors) actors are used, more goods and services are produced and consumer demand increases, the economy grows. If one or more resources are not used to full capacity, the economy and incomes slow down. The inner flow (counter-clockwise) shows the “real” flows of resources and products. The outer flow (clockwise) shows the money flows that facilitate the exchanges of the real flows.

Point out the labor (sic labour) resources on the circular flow model. Labor flows from households (workers) to the Factor Market. In the Factor Market, workers are paid for their labor. The labor flows to the Business Sector, where it (with other productive resources) is used to produce goods and services. The goods and services are then sold to Households (consumers) in the Product Market.

4. Distribute Handout/Visual 2: Why It Matters: Were You Counted This Summer? This article by Dr. Julia Heath was published in the Cincinnati Enquirer. Students should read the article about the unemployment rate.

5. Ask the students to summarize the main points of the article on unemployment.

[• It is difficult to determine the real unemployment rate.

• The labor force equals the number of employed plus the number of unemployed.

• You are only counted as unemployed if you actively looked for a job.

• The underemployed, part-time workers and those who did not look for a job are not counted as unemployed.]

The July, 2012, BLS “Employment Situation” announcement reads:

“Total nonfarm payroll employment rose by 163,000 in July, and the unemployment rate was essentially unchanged at 8.3 percent, the U.S. Bureau of Labor Statistics reported today. Employment rose in professional and business services, food services and drinking places, and manufacturing.”

Note that the unemployment rate reported for the month of July, 2012, was reported as 8.3 percent. The actual rate was 8.253 percent, but the announced rate is rounded to a tenth of a percent. This rounding can result in a change in the announced rate resulting from a very small change in the number of unemployed or the size of the labor force.

**Updated Unemployment Data:** To update the monthly unemployment data (after August, 2012) go to [http://www.bls.gov/news.release/empsit.nr0.htm](http://www.bls.gov/news.release/empsit.nr0.htm). Substitute the new monthly unemployment data for the numbers written in this lesson. The lesson can also be taught using the July, 2012, data as an example.


**Unemployment Rate:** The number unemployed persons as a percent of the civilian labor force.

Do the unemployment rate math: The number of unemployed divided by the labor force.

Give the students these numbers from the BLS July, 2012, “Employment Situation” announcement. Ask them to do the math to determine the unemployment rate.

- In July, 2012, there were 12,794,000 unemployed persons in the U.S.
- In July, 2012, there were 155,013,000 persons in the U.S. civilian labor force.
- 12,794,000 divided by 155,013,000 equals 8.253 or 8.3 percent

[Remember, the BLS announcement rounds to one tenth of a percent.]
Also using Handout/Visual 3, define the other key terms related to the determination of the unemployment rates.

[For more information about the terms used by the BLS, go to the BLS Glossary at http://www.bls.gov/bls/glossary.htm/]

8. Referring again to Handout/Visual 3, point out the last three terms:

- Not in the labor force
- Marginally attached workers
- Discouraged workers

Explain that many people are not in the labor force or working by choice: retired, other sources of income, or those who choose not to work. The labor force does not include those under age 16, those who are institutionalized, or those in the military.

Explain that “marginally attached” workers are people who have not looked for work in the past four months. “Discouraged” workers have given-up looking for jobs. Because they have not been looking for jobs, these people are not counted as “unemployed.”

Explain that in the BSL announcement for July, 2012, 2,529,000 people were marginally attached. 825,000 of those people were discouraged and had given-up looking for jobs.

Ask: Should these people be counted as unemployed?

[Initial responses will vary. Use this discussion to clarify the difference between people not working and the BLS definition of unemployed.]

Ask: What do you think is the BLS rationale for not including the marginally attached workers in the labor force and as unemployed?

[The BLS uses a very strict definition of unemployment. This definition has been used for some time – since 1940. Continuing to use this definition helps to compare rates over time. It may be difficult to determine how many of those who have not searched for a job are actually willing and able to work. The BLS views this as a more objective measurement.]
Ask: What is a rationale for including the marginally attached workers as in the labor force and as unemployed?

*[If an unemployed person has given-up looking for a job, it doesn’t necessarily mean that he or she does not want a job. Those who are less educated or skilled certainly will find it more difficult to find a job and have less incentive to continue to search. They are still available to work and “unemployed.”]*

9. Tell the students that the BLS also counts the number of people who work part-time. Some people only want to work part-time, but others would like to work full-time and can only find part-time work or work that is far below the level for which they are trained.

Provide this data from the July, 2012, Employment Situation announcement.

- Total number of part-time workers 27,112,000
- Part-time for non-economic reasons* 18,866,000
- Part-time for economic reasons** 8,246,000
- Slack work or business conditions 5,342,000
- Could only find part-time work 2,576,000

*These people work part-time by their own choice.

** These people are working part-time because such as their hours were cut back or they were unable to find full-time jobs due to poor business conditions and/or reduced demand for goods and services.

Ask: What about people who can only find part-time jobs, but would like to work full time? Should they be somehow counted as “unemployed”?

*[This discussion can focus on the BLS methodology of defining a person who worked any number of hours during the reference week as “employed.” The BLS uses this criterion: Full time is 35 hours or more per week. Part time is 1 to 34 hours per week. Students may have comments on what constitutes being fully “employed” or not.]*

Tell students that they might hear the term “underemployed.” This can mean those who are working just part-time or it may mean those who cannot find jobs that fit their level of education or training, such as a person who has a Master’s Degree in Education, but can only find work as a server in a restaurant – far below the wage level typical for that level of education and training.
Ask: What about this kind of situation? Is the person who cannot find the “right” job somehow unemployed? Ask: Is underemployment similar to other situation when a person is working but not being fully utilized in the workforce?

Students should offer their opinions about the meaning of underemployment. If individuals are not being used to their full potential, how does it affect the economy? Refer back to Handout/Visual 1: The Circular Flow Model of the Economy, to suggest that less use of resources can reduce output and income.

Note; Underemployment is not a specific category reported by the BLS in the Employment Situation announcements.

10. Ask: What is the real unemployment rate?

[Student answers may reflect their feelings about the status of marginally attached or part-time workers. This may include criticism of the reported unemployment rate as too low.]


Divide the students into small groups (3-4). Direct the student groups to read the six alternative measures. Each group should consider the six alternatives and determine a rationale for the one they think is the most accurate or appropriate measurement of unemployment.

The student groups can report their group choices and rationales to the larger group. If the decisions of the individual groups differ, they can informally debate their choices.

Conclusion

12. Again ask students: What is the unemployment rate?

Review the announced rate (8.3 percent).

Review the alternative rates, including the marginally attached and part-time workers.

[Students should conclude that the announced rate is important for consistency and comparisons over time. The higher rates may reflect additional problems in the labor market and the economy, but it may be more difficult to accurately measure that impact.]
**Assessment:**

Provide the students with examples of basic labor market data for a fictional nation. They should be able to determine the nation’s unemployment rate. Examples:

- **Civilian Population:** 120 million
  - Employed: 75 million
  - Unemployed: 5 million  \[\text{Unemployment Rate: 6.3 percent}\]

- **Civilian Population:** 72 million
  - Employed: 48 million
  - Unemployed: 9 million  \[\text{Unemployment Rate: 15.8 percent}\]

- **Civilian Population:** 215 million
  - Employed: 147 million
  - Unemployed: 13 million  \[\text{Unemployment Rate: 8.1 percent}\]

**Extension Activities**

1. **Unemployment by Demographic Groups**

The BLS also tracks and announces the unemployment rates for racial/ethnic groups, age levels, and levels of educational attainment. Students may be interested in discussing the factors that affect the unemployment rates for different ethnic groups.

For instance, the unemployment rate for people aged 16-19 in July, 2012, was 23.8 percent. Why is unemployment among teenagers so high?

The unemployment rates for those with higher levels of education are significantly lower than those with just a high school diploma. Why?

2. Unemployment in Other Industrialized Nations

The BLS tracks unemployment rates (by U.S. criteria) in nine other industrialized nations. Students can view this data online to compare the recent history of unemployment rates in the U.S. to other nations.

Highlights (June 2012):

- **Unemployment rates increased in June 2012 in three of the nine foreign countries covered by the BLS unemployment comparisons program. See Chart 1 and Table 1.**

- **The highest unemployment rates in June were in Italy (10.9 percent) and France (9.8 percent).**

- **Of the EU countries not covered in the BLS comparisons but tracked by BLS, unemployment rates increased in June 2012 in all countries except for Finland. See Chart 2 and Table 2.**

- **Employment decreased in June 2012 in Australia and Italy. See Table 3.**

The Circular Flow Model of the Economy
The latest data released by the federal government indicate that the unemployment rate was 8.3 percent in July, 2012; for teenagers (aged 16-19), it was 23.8 percent. Were you included in that figure? If you did not have a job this summer, you might assume that you were counted as being unemployed. But maybe not.

The United States has a total population of nearly 313 million people. Approximately 142 million of them are employed—leaving 171 million not employed. That works out to an unemployment rate of 54.6 percent. But that’s not what is reported. How do we get from 54.6 percent to 8.3 percent?

The government does not define “unemployed” as those individuals without a job. If we used 54.6 percent as the unemployment rate, we would be counting several groups that should not be included: those too young to work, those who presently do not want to work, (such as retirees or some college students, for example), and those who cannot work such as the disabled or those in institutions. Counting these individuals as unemployed does not tell us anything about whether there are enough jobs available for those who are able and willing to work.

The agency charged with keeping track of these labor market data, the Bureau of Labor Statistics (BLS), surveys 60,000 households each month. Using the responses, the BLS then puts people into three buckets: employed, unemployed, and not in the labor force. Putting people into these categories seems like it would be an easy thing, and sometimes it is. For example, if you answer “yes”
to the question, “did you work last week?” you are put in the employed bucket. What if you are working part-time, but you want a full-time job? Or, what if you have just graduated from college, but can only find a job at a fast-food place (you are “underemployed“)? You’re still counted as being employed. If you are drawing a paycheck, you are employed. But sometimes you are counted as employed even if you aren’t getting paid. For example, if you work—even without pay—for a family member at a family business more than 15 hours a week, you are counted as employed.

Let’s look at the unemployed bucket. If you say that you did not work last week, but that you looked for work in the past four weeks and are available for work, then you are unemployed. If you have been laid off (so you are not currently working), but you’re waiting to be called back to work, you are also counted as being unemployed.

The only bucket left is the not-in-the-labor-force bucket. Everyone else gets put here. The people listed above (younger than 16, retired, college student, etc.) are put in the not-in-the-labor-force bucket because they are not available and/or do not want to work. This bucket also includes you if you did not work in the past week, are available for work, but did not actively look for a job in the past four weeks. You are also in this bucket if you are a discouraged worker—you did not look for a job in the previous week and have given up looking for one. The BLS does not count you as being unemployed even though you don’t have a job. The key to being categorized a certain way is whether you looked for work in the previous four weeks. If you did, you are unemployed, if not, you are not in the labor force.
The BLS adds together the number of people who are employed and those who are unemployed—this is the size of the labor force. The reported unemployment rate is the proportion of people who are unemployed relative to the number of people who are in the labor force.

So if you did not have a summer job, were you counted as being unemployed? If you looked for work in the past four weeks, you were part of the 23.8 percent of teenagers who were unemployed. If you didn’t look for a job, you weren’t counted at all, even if you spent the summer mowing the grass or babysitting your kid sister.
Labor Market Data Definitions

**Unemployment Rate:** The number unemployed persons as a percent of the labor force.

**Labor Force:** All persons classified as employed or unemployed in accordance with the BLS definitions.

**Employed persons:** Persons 16 years and over in the civilian non-institutional population who, during the reference week, (a) did any work at all (at least 1 hour) as paid employees; worked in their own business, profession, or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of the family; and (b) all those who were not working but who had jobs or businesses from which they were temporarily absent (vacation, illness, bad weather, childcare problems, maternity or paternity leave, labor-management dispute, job training, or other family or personal reasons), whether or not they were paid for the time off or were seeking other jobs. Each employed person is counted only once, even if he or she holds more than one job. Excluded are persons whose only activity consisted of work around their own house or volunteer work for religious, charitable, and other organizations.

**Unemployed persons:** Persons aged 16 years and older who had no employment during the reference week, were available for work, except for temporary illness, and had made specific efforts to find employment sometime during the 4-week period. Persons who were waiting to be recalled to a job from which they had been laid off need not have been looking for work to be classified as unemployed.

**Labor force participation rate:** The labor force as a percent of the civilian non-institutional population.

**Not in the labor force:** Persons aged 16 years and older in the civilian non-institutional population who are neither employed nor unemployed in accordance with the definitions contained in this glossary. Information is collected on their desire for and availability for work, job search activity in the prior year, and reasons for not currently searching.

**Marginally attached workers:** Persons not in the labor force who want and are available for work, and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Discouraged workers are a subset of the marginally attached.

**Discouraged workers:** Persons not in the labor force who want and are available for a job and who have looked for work sometime in the past 12 months (or since the end of their last job if they held one within the past 12 months), but who are not currently looking because they believe there are no jobs available or there are none for which they would qualify.
**Alternative Measures of Labor Underutilization**


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<thead>
<tr>
<th>Measure</th>
<th>Not seasonally adjusted</th>
<th>Seasonally adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force</td>
<td>5.2</td>
<td>4.5</td>
</tr>
<tr>
<td>U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force</td>
<td>5.2</td>
<td>4.4</td>
</tr>
<tr>
<td>U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)</td>
<td>9.3</td>
<td>8.4</td>
</tr>
<tr>
<td>U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers</td>
<td>10.0</td>
<td>8.9</td>
</tr>
<tr>
<td>U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force</td>
<td>10.9</td>
<td>9.9</td>
</tr>
<tr>
<td>U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force</td>
<td>16.3</td>
<td>15.1</td>
</tr>
</tbody>
</table>

**NOTE:** Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.