

E101 - 2.1 - Unemployment & Inflation

Unemployment - The # of persons 15 years old and over who are actively seeking work but are not employed.

Working Age Population - In Canada the total population excluding those under 15 years of age, those living on aboriginal reserves, full-time residents of mental and penal institutions or hospitals, and those in the armed forces.

Labour Force - Members of the working age population both employed and unemployed.

Employed - Those who are in the labour force and hold paid employment.

Unemployed - Those who are in the labour force and are actively seeking employment but do not hold paid employment.

Participation Rate - The % of those in the working age population who are actually in the labour force.

Unemployment Rate - The percentage of those in the labour force who do not hold paid employment.

$$\text{Labour Force Participation Rate} = \frac{\text{Labour Force}}{\text{Working Age Population}} \times 100$$

$$\text{Unemployment Rate} = \frac{\text{Number of Unemployed}}{\text{Labour Force}}$$

Frictional Unemployment - The part of the total unemployment that is caused by the fact that it takes time for people to find their first job or to move between jobs.

Structural Unemployment - The part of total unemployment that results from a mismatch in the skills or location between jobs available and people looking for work.

Full Employment - Frictional and structural unemployment exist, but cyclical unemployment is zero.

Cyclical Unemployment - Occurs as a result of the recessionary phase of the business cycle.

Natural Rate of Unemployment - The unemployment rate at full employment.

Discouraged Worker - An individual who wants work but is no longer actively seeking it because of their belief that no opportunity exists.

GDP Gap - The difference between potential GDP and actual GDP (real or nominal).

$$\text{GDP Gap} = \text{Potential GDP} - \text{Actual GDP (Real or Nominal)}$$

Okun's Law - The observation that for every 1% of cyclical unemployment an economy's GDP is 2.5% below its potential.

$$\text{GDP Gap} = 2.5 \times \text{Cyclical Unemployment (\%)} \times \text{Actual GDP (Real or Nominal)}$$

Inflation - A persistent rise in the general level of prices.

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Consumer Price Index - A measure of the average level of prices of goods and services that a typical Canadian family consumes. (CPI)

$$CPI = \frac{\text{Cost of Basket in Given Year}}{\text{Cost of Basket in Base Year}} \times 100$$

$$\text{Inflation Rate} = \frac{(\text{Price Index This Year} - \text{Price Index Last Year})}{\text{Price Index Last Year}}$$

GDP Deflator - A measure of the price level of goods and services included in the GDP, calculated by dividing the nominal GDP by the real GDP and multiplying by 100.

$$GDP \text{ Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$\text{Real Value (In year B\$)} = \frac{\text{Nominal Value in Year A}}{\text{Price Index In Year A}} \times \text{Price Index in Year B (Or Base Year)}$$

Nominal Income - The present dollar value of a person's income.

$$\% \text{ Change in Real Income} = \% \text{ Change in Nominal Income} - \text{Inflation Rate}$$

$$\text{Number of Years to Double} = \frac{70}{\% \text{ Growth Rate}}$$

Re-Distributive Costs - (of inflation) costs that are shifted from one group in society to another group by inflation.

Real Interest Rate - The rate of interest measured in constant dollars.

$$\text{Nominal Interest Rate} = \text{Real Interest Rate} + \text{Inflation Rate}$$

Output Costs - Of inflation costs of loss of output resulting from inflation.

Demand pull inflation - of inflation that occurs when total demand for goods and services exceeds the economy's capacity to produce those goods.

Cost Push Inflation - Inflation caused by an increase in the costs of production or in profit levels, affecting the supply side.