

Unemployment Rate

First, in the United States, economists derive the data of unemployment from the various state workforce commissions. Once unemployed, citizens report to a state's workforce commission (typically there are several locations within a state); these citizens become a statistic in the unemployment database. Second, the types of unemployment that the Bureau of Labor Statistics collects to determine the unemployment rate is comprised of people who are frictionally unemployed (citizens between jobs) as well as people who are structurally unemployed (citizens whose jobs have become obsolete). This data collectively goes into the unemployment rate formula.

In regards to the formula used to determine the unemployment rate, as well as the amount of money an economy loses because of unemployment, the following is the process that economists use in its calculations. The labor force is the combined total of all unemployed people who are actively seeking employment and all the people who are actually working. The coefficient of this calculation gives us the unemployment rate times 100. The unemployment rate formula is the following: Unemployment (UE) rate = $UE / \text{Labor Force (LF)} \times 100$.

The index for unemployment is 4.5%, which indicates a healthy unemployment rate. If the unemployment calculations are less than 4.5%, this is great for an economy! However, if the data exceeds 4.5%, then we begin to experience a high rate of unemployment. High unemployment rates are often correlated with recessions.

When an economy has a high rate of unemployment, it loses money or its GDP shrinks. This loss is measured by the difference of the natural unemployment rate, which is also referred to as full employment at 4.5%. When economists subtract the natural rate of unemployment from the actual rate of unemployment, for example, 9%, this is an indication that there is a negative GDP gap of -4.5%. Additionally, there is a constant 2% that is multiplied times the -4.5%. This measurement indicates a .09% negative GDP gap. The .09% data is a measurement of the number of people who are unemployed and is referred to as a negative percentage in the GDP gap. After this .09% is determined (measurement of the GDP gap), this data is computed, .09% times the \$14 billion of a given country. Please note the following example. Let us say that the potential GDP of a given country is \$14 billion; therefore, \$14 billion times .09% will equal \$1.26 billion. What this means is that this country's economy due to unemployment in the GDP gap has lost \$1.26 billion due to unemployment. One might think that unemployment to an economy is as horrific as inflation.