

Quadrant II - Notes

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Module Name : Frictional and Wait Unemployment

Module No : 14

Meaning of Frictional Unemployment

“Friction” is the resistance that one surface or object encounters when moving over another. It is the action of one surface or object rubbing against another. Both jobs and workers are heterogeneous, and a mismatch can result between the characteristics of supply and demand. Such a mismatch can be related to skills, payment, worktime, location, attitude, taste, and a multitude of other factors.

Thus, unemployment that occurs from the inevitable time delays in finding new employment in a free market. It may also be called ‘search unemployment’ as it relates to the time taken to search for new employment. Frictional unemployment is sometimes called search unemployment and can be based on the circumstances of the individual. It is time spent between jobs when a worker is searching for a job or transferring from one job to another

Examples of Frictional Unemployment

For example, if you graduate from university, you can’t necessarily expect to find a job straight away which matches your skills. This period of searching for a job is known as frictional unemployment. Frictional unemployment will also occur when people are switching between jobs, either because they have been made redundant or are looking for new employment.

Causes of Frictional Unemployment

- Workers have different preferences and abilities and jobs have different attributes. It takes too much time to match workers and jobs. If all workers and all jobs were identical, labour market would be in equilibrium
- A person may be looking for a job change for better opportunities, services, salary and wages, or because of dissatisfaction with the previous job.
- The flow of information about job candidates and job vacancies is imperfect
- Geographic mobility of workers is not instantaneous.
- Sectoral shifts or changes in the composition of demand among industries or regions are constantly occurring. The types of goods that firms and households demand vary

over time. As demand for goods shifts, so does the demand for the labour that produces those goods.

- Some frictional unemployment is inevitable in a changing economy.
- Because different regions produce different goods, the demand for labour in may be rising in one part of the country and falling in another.
- Workers often unexpectedly find themselves out of work when their firms fail, when their job performance is deemed unacceptable or when their particular skills are no longer needed.

Thus, searching for an appropriate job takes time and effort, reducing the rate of job finding. The unemployment caused by the time it takes workers to search for a job is called frictional unemployment. As long as the supply and demand for labour among firms is changing, frictional unemployment is unavoidable. As long as the supply and demand for labour among firms is changing, frictional unemployment is unavoidable. It is sometimes beneficial to the economy since it results in a better allocation of resources. Governments seek ways to reduce unnecessary frictional unemployment.

Introduction to Wait Unemployment

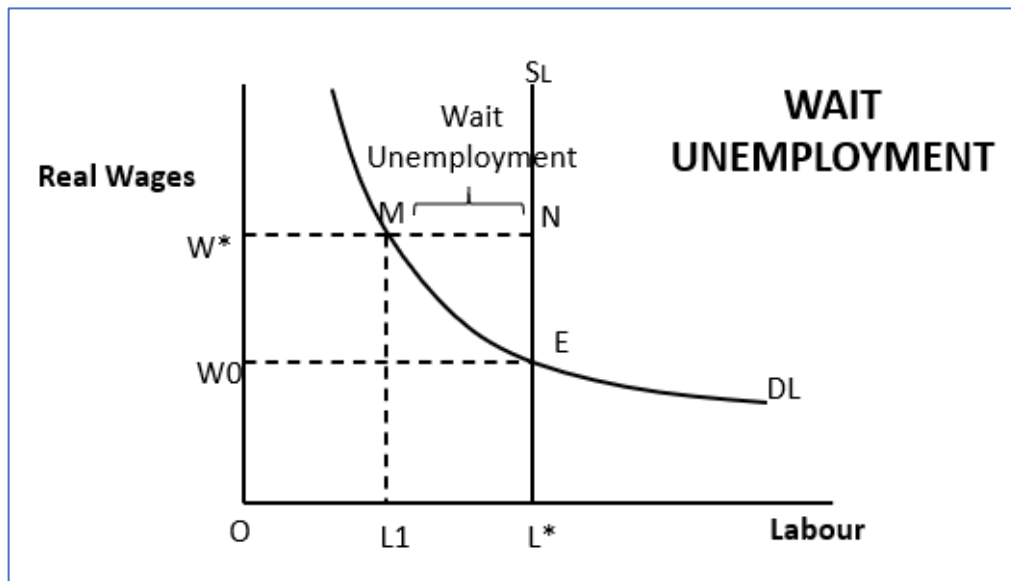
Job preferences are related to wage differentials. The decision is sensitive to the level, duration and coverage of unemployment benefits. Displaced workers seek reemployment in a similar position. They often face a trade-off.

Workers prefer to wait instead of seeking employment at a lower wage in a job s/he is not trained for.

Example: An industrial engineer and a waiter. The more a worker invested in occupation-specific human capital the higher is his incentive to wait.

Wage Rigidity: The Cause of Wait Unemployment

Wage rigidity arises because sometimes wages are not flexible and the real wages are fixed above the equilibrium level. This results in unemployment. Restricts employment in the high-wage sector and also attracts workers who wait to try to get jobs.



The supply curve of labour is vertical following the classical assumption that in the long run the supply of labour is fixed. The demand for labour curve is downward sloping because the demand for labour is negatively related to the real wage rate. The equilibrium or market clearing level is where Demand for Labour = Supply of Labour, i.e. point E. at this point the amount of labour willing to work is OL^* at the wage level W_0 .

If the real wage is fixed above the equilibrium level say at W^* , only OL_1 number of labourers will be hired. However, OL^* number of labourers are willing to work. Thus, since the demand for labour (W^*M) is less than the supply of labour (W^*N) leading to the phenomenon of wait unemployment. In other words the wage is rigid at this point, reducing the rate of job finding and raising the level of unemployment.