The Macroeconomy: Unemployment, Inflation, and Deflation

Learning Objectives

After you have studied this chapter, you should be able to

1. define the following terms: stock, flow, labor force, unemployment rate, discouraged worker, labor force participation rate, frictional unemployment, cyclical unemployment, seasonal unemployment, structural unemployment, job loser, reentrant, job leaver, new entrant, full employment, inflation, base year, price index, consumer price index (CPI), producer price index (PPI), GDP deflator, deflation, unanticipated inflation, anticipated inflation, nominal or market rate of interest, real rate of interest, creditor, debtor, cost-of-living adjustments, repricing (menu) cost of inflation, business fluctuations, recession, contraction, depression, expansion, and purchasing power;

2. calculate the unemployment rate, given specific information;

3. recognize the four categories under which an individual is officially counted as being among the unemployed;

4. list the major types of unemployment;

5. distinguish between the effects of anticipated and unanticipated inflation;

6. predict whether a specific group benefits or is economically injured by unanticipated inflation;

7. calculate a price index for a given market basket that includes a small quantity of goods;

8. distinguish between stocks and flows; and

9. recognize the types of business fluctuations and list shocks that can cause such fluctuations.

Outline

1. When unemployment exists, the economy is inefficient and households forgo goods and services.
   a. The unemployment rate is the percentage of the measured labor force that is unemployed.
   b. The calculation of the official unemployment rate is complicated and somewhat arbitrary.
   c. Four official categories of reasons for unemployment are: job losers, job leavers, reentrants, new entrants.
d. The unemployment rate varies directly with the average duration of unemployment, other things being constant.

e. Because of the discouraged worker phenomenon, the official unemployment rate understates true unemployment.

2. Unemployment has been categorized into four types: frictional, cyclical, seasonal, and structural.
   a. Frictional unemployment exists when people are between steady jobs.
   b. Cyclical unemployment is due to recessions and depressions.
   c. Seasonal unemployment results from differences in the demand for labor over the seasons of the year.
   d. Structural unemployment results when resources are reallocated so that individuals with specific skills cannot find jobs for long periods.

3. Employment of every individual in the labor force is generally unattainable because of frictional unemployment.
   a. “Full employment” is said to prevail only when frictional unemployment exists.
   b. The natural rate of unemployment is the unemployment rate that exists in long-run macroeconomic equilibrium, when all workers and employers have fully adjusted to any changes in the economy. Hence, the natural rate of unemployment does not reflect cyclical unemployment.

4. Inflation is a sustained rise in a weighted average of all prices.

5. Measures of inflation include the consumer price index, the producer price index, and the GDP deflator.
   a. The consumer price index measures the cost of an unchanging representative basket of consumer goods through time.
   b. The producer price index measures the cost of an unchanging basket of goods sold in primary markets by producers of commodities in all stages of processing.
   c. The GDP deflator measures the value of all goods and services produced by an economy. The “basket” changes over time.

6. The ill effects of inflation are accounted for mostly by unanticipated inflation. If inflation is fully anticipated, ill effects are slight.

7. The nominal interest rate is (approximately) equal to the sum of the real interest rate and the anticipated inflation rate.
   a. If inflation is unanticipated, creditors are worse off because the real value of their monetary assets falls.
   b. If inflation is unanticipated, debtors are better off because the real value of their monetary debts falls.

8. Besides the transfer of wealth from creditors to debtors during periods of unanticipated inflation, there are other effects.
   a. Inflation reduces the real value of cash holdings.
   b. Resources must be allocated to predict inflation and to avoid its ill effects.
9. The ups and downs in economic activity are called business fluctuations.
   a. Inflation tends to be higher during an expansion phase, and unemployment rates are lower.
   b. During a contraction phase, unemployment rates are higher, and the inflation rate is typically lower.

10. Such external shocks as bad weather and rapid and unanticipated price rises in strategic resources such as oil also cause business fluctuations.

### Key Terms

<table>
<thead>
<tr>
<th>Base year</th>
<th>GDP deflator</th>
<th>Personal consumption expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer price index (CPI)</td>
<td>Job leaver</td>
<td>(PCE) index</td>
</tr>
<tr>
<td>Contraction</td>
<td>Labor force</td>
<td>Price index</td>
</tr>
<tr>
<td>Depression</td>
<td>Labor force participation rate</td>
<td>Producer price index (PPI)</td>
</tr>
<tr>
<td>Expansion</td>
<td>Leading indicators</td>
<td>Recession</td>
</tr>
<tr>
<td>Flow</td>
<td>Natural rate of unemployment</td>
<td>Reentrant</td>
</tr>
<tr>
<td>Full employment</td>
<td>New entrant</td>
<td>Stock</td>
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<tr>
<td>Unemployment</td>
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</tbody>
</table>

### Key Concepts

<table>
<thead>
<tr>
<th>Anticipated inflation</th>
<th>Deflation</th>
<th>Real rate of interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business fluctuations</td>
<td>Discouraged workers</td>
<td>Repricing, or menu, cost of inflation</td>
</tr>
<tr>
<td>Cost-of-living adjustments</td>
<td>Frictional unemployment</td>
<td>Seasonal unemployment</td>
</tr>
<tr>
<td>Creditor</td>
<td>Inflation</td>
<td>Structural unemployment</td>
</tr>
<tr>
<td>Cyclical unemployment</td>
<td>Nominal, or market, rate of interest</td>
<td>Unanticipated inflation</td>
</tr>
<tr>
<td>Debtor</td>
<td></td>
<td>Unemployment</td>
</tr>
</tbody>
</table>

### Completion Questions

Fill in the blank, or circle the correct term.

1. This chapter deals with unemployment and ____________________________.

2. A(n) __________________ is measured per unit of time, while _____________ is measured at a given moment in time.

3. The unemployment rate is calculated by dividing the number of unemployed by the sum of the (a) employed plus the (b) _____________________.

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4. If a person is able to work and last looked for a job five weeks ago, she (is, is not) in the labor force.

5. Stay-at-home dads are officially considered as (unemployed, employed, not in the labor force).

6. Discouraged workers who are not currently looking but have looked for a job are counted officially as (employed, unemployed, not in the labor force). Because of this official classification, some people believe that the measured unemployment rate (overstates, understates) true unemployment.

7. The percentage of working-age individuals who are in the labor force is called the labor force ________________________.

8. Unemployment has been categorized into four basic types: frictional, ________________________, ________________________, and ________________________.

9. If imperfect information exists within job markets, then some frictional unemployment is (desirable, undesirable), both from the individual’s and society’s points of view.

10. ______________ unemployment varies with business fluctuations.

11. There is consensus among economists that the current “full” employment rate for the U.S. economy is consistent with about __________ percent actual unemployment.

12. Many of the problems associated with inflation have occurred because the inflation rate was ________________.

13. The nominal interest rate equals the real interest rate (plus, minus) the anticipated inflation rate.

14. When inflation is unexpected, (debtors, creditors) benefit at the expense of (debtors, creditors).

15. When unanticipated deflation occurs, debtors are economically (worse, better) off.

16. The personal consumption expenditure index is a price index based on annual surveys of consumer ____________________.

17. The CPI and the PPI measure the cost of (an unchanging, a changing) basket of goods through time.

18. To the extent that price indexes do not adjust for quality improvements, they (overstate, understate) the true rate of inflation.

19. Indexes of leading economic indicators include factors that have been demonstrated to be indicators of (past, future) recessions.

20. Business fluctuations can be caused by ________________________ shocks such as poor weather or large, unanticipated price rises in key resources such as oil.
21. On average, economic expansions have (lasted about as long as; been shorter than; been longer than) those that predated World War II.

22. On average, economic contractions have (lasted about as long as; been shorter than; been longer than) those that predated World War II.

**True-False Questions**

Circle the **T** if the statement is true, the **F** if it is false. Explain to yourself why a statement is false.

T F 1. Business fluctuations tend to be relatively constant in timing, magnitude, and duration, at least in the United States.

T F 2. The dating of recession and expansion phases is somewhat arbitrary.

T F 3. As inflation occurs, the purchasing power of a unit of money falls.

T F 4. The opportunity costs due to unemployment, in terms of forgone national output, are usually trivial.

T F 5. Homemakers and students are officially counted as part of the labor force.

T F 6. People who are not working and who last looked for a job within the past four weeks are officially unemployed.

T F 7. If the average duration of unemployment rises, other things being constant, the unemployment rate will fall.

T F 8. People not working, who have looked for a job six months ago but are not looking now, are counted as discouraged workers and, therefore, are officially unemployed.

T F 9. Reentrants are considered to be unemployed.

T F 10. Because of imperfect information in the labor market, there will always be some frictional unemployment.

T F 11. Anticipated inflation causes fewer economic problems than unanticipated inflation.

T F 12. During periods of correctly anticipated inflation, debtors gain at the expense of creditors.

T F 13. The unemployment rate is higher in the contraction phase of a business cycle than in the expansionary phase.

T F 14. Income is a flow, inflation is a flow, and the number of people unemployed is a stock.

T F 15. The CPI measures the cost of an unchanging basket of goods and services.
Multiple Choice Questions

Circle the letter that corresponds to the best answer.

1. Business fluctuations are
   a. nonperiodic recurrent fluctuations in overall economic activities.
   b. of similar duration.
   c. of similar magnitude.
   d. All of the above.

2. The U.S. labor force includes
   a. the unemployed.
   b. people in mental institutions.
   c. children.
   d. None of the above.

3. Which one of the following statements is not a stock concept?
   a. the number of people unemployed
   b. national income
   c. the number of job losers
   d. the number of job finders

4. Which one of the following is a flow concept?
   a. national income
   b. inflation rate
   c. consumption
   d. All of the above

5. Which one of the following persons is not like the others?
   a. job finder
   b. job leaver
   c. new entrant
   d. reentrant

6. Which one of the following persons is officially unemployed?
   a. a housewife
   b. a student
   c. a resident in an institution
   d. a nonworking individual who has looked for a job within the past week
7. If the average duration of unemployment rises, other things being constant,
   a. the participation rate will rise.
   b. the unemployment rate will rise.
   c. total employment must fall.
   d. total unemployment must fall.

8. Which one of the following statements is false?
   a. It is possible for the total number of employed and the total number of unemployed to rise in the same period.
   b. It is possible for the total number of employed to rise and the unemployment rate to rise in the same period.
   c. If the average duration of unemployment falls, other things being constant, the unemployment rate will fall.
   d. The definitions of employment, unemployment, and labor force are not subject to disagreement among economists.

9. Discouraged workers are officially
   a. unemployed.
   b. employed.
   c. not in the labor force.
   d. in the labor force.

10. If stay-at-home dads were counted in the labor force and considered employed, then
    a. the male labor force participation rate would rise.
    b. the overall official unemployment rate would fall.
    c. overall official employment would rise.
    d. All of the above.

11. If inflation is anticipated,
    a. it is costless to society.
    b. debtors gain.
    c. it costs less to society than if unanticipated.
    d. creditors gain.

12. Which one of the following is least like the others?
    a. frictional unemployment
    b. seasonal unemployment
    c. discouraged worker unemployment
    d. cyclical unemployment
13. Unemployment that results from search time required to find new employment after leaving a previous position is known as
   a. frictional unemployment.
   b. structural unemployment.
   c. seasonal unemployment.
   d. cyclical unemployment.

14. Because there is always frictional unemployment, “full” employment is considered to exist if
   a. every man, woman, and child is working.
   b. everyone age 16 and over is working.
   c. the unemployment rate is relatively small.
   d. the unemployment rate is 12 percent.

15. If the inflation rate is anticipated,
   a. net creditors will be hurt.
   b. inflation may not be a major problem.
   c. net debtors will be hurt.
   d. people will hold more cash than they want to hold.

16. Unanticipated deflation
   a. hurts net debtors.
   b. causes no economic problems.
   c. hurts people who hold cash.
   d. hurts fixed income groups.

17. Which one of the following statements is true?
   a. If there is zero anticipated inflation, the nominal interest rate equals the real interest rate.
   b. The real interest rate equals the nominal interest rate plus the anticipated inflation rate.
   c. The real interest rate equals the nominal interest rate divided by the anticipated inflation rate.
   d. Borrowers will not permit lenders to raise the nominal interest rate if all expect that the inflation rate will rise.

18. Which one of the following groups is most hurt by unanticipated inflation?
   a. workers with cost-of-living adjustment clauses in their labor contracts
   b. Social Security recipients
   c. workers who sign new work agreements every day
   d. wealthy people who hold much cash in their wall safes

19. The consumer price index
   a. measures the cost of an unchanging basket of goods and services.
   b. does not take into account relative price changes and, therefore, is biased.
   c. does not completely account for quality changes and, therefore, is biased.
   d. All of the above.
Matching

Choose the item in Column (2) that best matches an item in Column (1).

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
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</thead>
<tbody>
<tr>
<td>(a)</td>
<td>labor force</td>
</tr>
<tr>
<td>(b)</td>
<td>leading indicators</td>
</tr>
<tr>
<td>(c)</td>
<td>unemployed</td>
</tr>
<tr>
<td>(d)</td>
<td>price index</td>
</tr>
<tr>
<td>(e)</td>
<td>employed</td>
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<tr>
<td>(f)</td>
<td>inflation</td>
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<td>(g)</td>
<td>business fluctuation</td>
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<tr>
<td>(h)</td>
<td>recession</td>
</tr>
<tr>
<td>(i)</td>
<td>reentrant</td>
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<tr>
<td>(j)</td>
<td>GDP deflator</td>
</tr>
<tr>
<td>(k)</td>
<td>job finder</td>
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<tr>
<td>(l)</td>
<td>employed and unemployed</td>
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<td>(m)</td>
<td>building permits and vendor deliveries</td>
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<tr>
<td>(n)</td>
<td>falling purchasing power of money</td>
</tr>
<tr>
<td>(o)</td>
<td>cyclical unemployment</td>
</tr>
<tr>
<td>(p)</td>
<td>expansion</td>
</tr>
</tbody>
</table>

Problems

1. Assume that the employment data (in millions) are

   Noninstitutional civilian population (16 and over) 243.190
   Resident armed forces 1.705
   Civilian labor force 161.600
   Unemployment 7.757

   a. Calculate the number of people (16 years old and over) not in the civilian labor force.
   b. Calculate the number of employed civilian workers.
   c. What is the civilian unemployment rate?
   d. In percentage terms (and rounded to the nearest one-hundredth of 1 percent), what would be the unemployment rate if resident armed forces were counted in the labor force?

2. The CPI measures the cost of an unchanging representative basket of goods and services through time. Suppose the following occur: (a) inflation, (b) an increase in the relative price of energy, and (c) a decrease in the relative price of food. What does the law of demand predict concerning household purchases of food and energy? If households respond predictably, will the CPI overstate or understate the hardships associated with increases in the overall price level?

3. Suppose that an economic slump occurs and that (a) many minorities stop looking for jobs because they know that the probability of finding a job is low, and (b) many people who are laid off start doing such work at home as growing food, painting, repairing their houses and autos, and so on. Which of these events implies that the official unemployment rate overstates unemployment, and which implies the opposite?
4. Consider the following table for an economy that produces only four goods:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pizza</td>
<td>$4</td>
<td>10</td>
<td>$8</td>
<td>12</td>
</tr>
<tr>
<td>Cola</td>
<td>12</td>
<td>20</td>
<td>36</td>
<td>15</td>
</tr>
<tr>
<td>T-shirts</td>
<td>6</td>
<td>5</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Business equipment</td>
<td>25</td>
<td>10</td>
<td>30</td>
<td>12</td>
</tr>
</tbody>
</table>

Assuming a 1995 base year,

a. what is nominal GDP for 1995 and for 2015?
b. what is real GDP for 1995? for 2015?
c. what is the implicit GDP price deflator for 1995? for 2015?
d. what is the CPI for 1995? for 2015?

5. From the list below, classify each of the unemployed individuals as representing either (F) frictional, (S) structural, or (C) cyclical unemployment.

_____ (a) Janice is an auto worker from Detroit who has been laid off because of the recent sharp decline in GDP, which has resulted in a severe decrease in auto sales.
_____ (b) Dennis, from western Kentucky, finds he can no longer get work in the coal mines because of new automated mining techniques.
_____ (c) Priscilla is unable to locate work after finishing her high school education and entering the labor force.
_____ (d) Anil, an aerospace engineer, finds himself unemployed because of large cutbacks in defense spending. Since our space program is also on a tight budget, Anil hasn’t been able to locate alternative work for the past two months.
_____ (e) Oscar, a skilled carpenter, has found himself out of work because of the housing slump brought on by high interest rates and the recession.
_____ (f) Latoya quits her job as a salesperson out of frustration stemming from her lack of promotion. She begins to look for a management position in a similar work setting.
_____ (g) Pramilla reenters the labor force after having a child and is unable to locate suitable work.
_____ (h) Stevenson, an airline pilot, suddenly finds himself laid off because of the dramatic decline in the demand for air transportation caused by the recent recession.
6. Suppose we define our relevant “market basket” of goods as containing the following:

- 10 apples
- 7 oranges
- 4 pounds of bananas
- 2 pineapples

Suppose we also have the following price information for the years 2010 and 2015:

<table>
<thead>
<tr>
<th>Fruit</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apples</td>
<td>$0.10 each</td>
<td>$0.18 each</td>
</tr>
<tr>
<td>Oranges</td>
<td>0.15 each</td>
<td>0.23 each</td>
</tr>
<tr>
<td>Bananas</td>
<td>0.25 per pound</td>
<td>0.20 per pound</td>
</tr>
<tr>
<td>Pineapples</td>
<td>0.50 each</td>
<td>0.65 each</td>
</tr>
</tbody>
</table>

What is the 2015 FPI (fruit price index) using 2010 as the base year? What does this index tell us?
Answers

Completion Questions

1. inflation 
2. flow; stock 
3. unemployed 
4. is not 
5. not in the labor force 
6. not in the labor force; understates 
7. participation rate 
8. cyclical, seasonal, structural 
9. desirable 
10. Cyclical 
11. 5 
12. unanticipated 
13. plus 
14. debtors; creditors 
15. worse 
16. purchases 
17. an unchanging 
18. overstate 
19. past 
20. external 
21. been longer than 
22. been shorter than

True-False Questions

1. F All are highly variable. 
2. T 
3. T 
4. F Costs could be in the hundreds of billions of dollars. 
5. F They are not in the officially measured labor force. 
6. T 
7. F The unemployment rate will rise. 
8. F They are, officially, not in the labor force. 
9. T 
10. T 
11. T 
12. F Neither group gains or benefits at the expense of the other because the nominal interest rate will reflect the anticipated inflation rate. 
13. T 
14. T 
15. T
Multiple Choice Questions

1. (a) 11. (c)
2. (a) 12. (c)
3. (b) 13. (a)
4. (d) 14. (c)
5. (a) 15. (b)
6. (d) 16. (a)
7. (b) 17. (a)
8. (d) 18. (d)
9. (c) 19. (d)
10. (d)

Matching

(a) and (l) (e) and (k)
(b) and (m) (f) and (n)
(c) and (i) (g) and (p)
(d) and (j) (h) and (o)

Problems

1. a. 84.590 million
   b. 153.843 million
   c. 4.80 percent
   d. 4.75 percent

2. The law of demand predicts that households will purchase less energy and more food. Because the CPI measures the cost of purchasing an unchanging basket, it will overstate the hardships of inflation.

3. If minorities become discouraged from looking for jobs, they will not be counted as officially unemployed, and therefore, the actual employment rate will understate “true” unemployment. If people perform do-it-yourself activities, they are “really” working, but they will not be counted in the labor force if they quit looking for a job. Or they will be counted as unemployed if they continue their job search. Either way, such do-it-yourself activities cause the official unemployment rate to overstate the “true” unemployment rate.

   Nominal GDP for 2015 = \((\$8)(12) + (\$36)(15) + (\$10)(15) + (\$30)(12)\) = $1,146.
   c. GDP deflator for 1995 = \((\text{nominal GDP1995}/\text{real GDP1995}) \times 100\) = \((\$560/\$560) \times 100\) = 100.0.
   GDP deflator for 2015 = \((\text{nominal GDP2015}/\text{real GDP2015}) \times 100\) = \((\$1146/\$618) \times 100\) = 185.4.
d. CPI for 1995 = 100, because it is the base year.
   CPI for 2015 = (P2015 \cdot Q1995/P1995 \cdot Q1995) \times 100 = (\$850/\$310) \times 100 = 274.
   P2015 \cdot Q1995 = (\$8)(10) + (\$36)(20) + (\$10)(5) = \$850.
   P1995 \cdot Q1995 = (\$4)(10) + (\$12)(20) + (\$6)(5) = \$310.

5. a. C
b. S
c. F
d. S
e. C
f. F
g. F
h. C

6.

<table>
<thead>
<tr>
<th>Fruit</th>
<th>Q-2015</th>
<th>P-2015</th>
<th>Total</th>
<th>Q-2015</th>
<th>P-2010</th>
<th>Total</th>
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<tbody>
<tr>
<td>Apples</td>
<td>10</td>
<td>$0.18</td>
<td>$1.80</td>
<td>10</td>
<td>$0.10</td>
<td>$1.00</td>
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<tr>
<td>Oranges</td>
<td>7</td>
<td>0.23</td>
<td>1.61</td>
<td>7</td>
<td>0.15</td>
<td>1.05</td>
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<tr>
<td>Bananas</td>
<td>4</td>
<td>0.20</td>
<td>0.80</td>
<td>4</td>
<td>0.25</td>
<td>1.00</td>
</tr>
<tr>
<td>Pineapples</td>
<td>2</td>
<td>0.65</td>
<td>1.30</td>
<td>2</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$5.51</td>
<td></td>
<td></td>
<td>$4.05</td>
</tr>
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</table>

Therefore, the FPI = ($5.51/$4.05) \times 100 = 136. This means that on average, fruit is 1.36 times as expensive in 2015 as 2010. In other words, fruit prices (to the extent that they are measured by our market basket) have risen 36 percent from 2010 to 2015.

Notice that fruit prices have risen at a different rate across different types of fruit. Bananas have actually become cheaper in the above problem. Remember, a price index measures average overall tendencies by calculating the ratio of costs of the same “market basket” of goods at two or more points in time.
Glossary

**Anticipated inflation**  The inflation rate that we believe will occur. When it does occur, we are in a situation of fully anticipated inflation.

**Base year**  The year that is chosen as the point of reference for comparison of prices in other years.

**Business fluctuations**  The ups and downs in business activity throughout the economy.

**Consumer Price Index (CPI)**  A statistical measure of a weighted average of prices of a specified set of goods and services purchased by typical consumers in urban areas.

**Contraction**  A business fluctuation during which the pace of national economic activity is slowing down.

**Cost-of-living adjustments (COLAs)**  Clauses in contracts that allow for increases in specified nominal values to take account of changes in the cost of living.

**Cyclical unemployment**  Unemployment resulting from business recessions that occur when aggregate (total) demand is insufficient to create full employment.

**Deflation**  A sustained decrease in the average of all prices of goods and services in an economy.

**Depression**  An extremely severe recession.

**Discouraged workers**  Individuals who have stopped looking for a job because they are convinced that they will not find a suitable one.

**Expansion**  A business fluctuation during which the pace of national economic activity is speeding up.

**Flow**  A quantity measured per unit of time; something that occurs over time, such as the income you make per week or per year or the number of individuals who are fired every month.

**Frictional unemployment**  Unemployment due to the fact that workers must search for appropriate job offers. This activity takes time, and so they remain temporarily unemployed.

**Full employment**  An arbitrary level of unemployment that corresponds to “normal” friction in the labor market. In 1986, a 6.5 percent rate of unemployment was considered full employment. Today it is somewhat higher.

**GDP deflator**  A price index measuring the changes in prices of all new goods and services produced in the economy.

**Inflation**  A sustained increase in the average of all prices of goods and services in an economy.

**Job leaver**  An individual in the labor force who quits voluntarily.

**Job loser**  An individual in the labor force whose employment was involuntarily terminated.

**Labor force**  Individuals aged 16 years or older who either have jobs or who are looking and available for jobs; the number of employed plus the number of unemployed.

**Labor force participation rate**  The percentage of noninstitutionalized working-age individuals who are employed or seeking employment.

**Leading indicators**  Events that have been found to occur before changes in business activity.

**Natural rate of unemployment**  The rate of unemployment that is estimated to prevail in long-run macroeconomic equilibrium, when all workers and employers have fully adjusted to any changes in the economy.

**New entrant**  An individual who has never held a full-time job lasting two weeks or longer but is now seeking employment.

**Nominal rate of interest**  The market rate of interest observed in contracts expressed in today’s dollars.
Personal Consumption Expenditures (PCE) Index  A statistical measure of average prices that uses annually updated weights based on surveys of consumer spending.

Price index  The cost of today’s market basket of goods expressed as a percentage of the cost of the same market basket during a base year.

Producer Price Index (PPI)  A statistical measure of a weighted average of prices of goods and services that firms produce and sell.

Purchasing power  The value of money for buying goods and services. If your money income stays the same but the price of one good that you are buying goes up, your effective purchasing power falls.

Real rate of interest  The nominal rate of interest minus the anticipated rate of inflation.

Recession  A period of time during which the rate of growth of business activity is consistently less than its long-term trend or is negative.

Reentrant  An individual who used to work full-time but left the labor force and has now reentered it looking for a job.

Repricing, or menu, cost of inflation  The cost associated with recalculating prices and printing new price lists when there is inflation.

Seasonal unemployment  Unemployment resulting from the seasonal pattern of work in specific industries. It is usually due to seasonal fluctuations in demand or to changing weather conditions, rendering work difficult, if not impossible, as in the agriculture, construction, and tourist industries.

Stock  The quantity of something, measured at a given point in time—for example, an inventory of goods or a bank account. Stocks are defined independently of time, although they are assessed at a point in time.

Structural unemployment  Unemployment resulting from a poor match of workers’ abilities and skills with current requirements of employers.

Unanticipated inflation  Inflation at a rate that comes as a surprise, either higher or lower than the rate anticipated.

Unemployment  The total number of adults (aged 16 years and older) who are willing and able to work and who are actively looking for work but have not found a job.