



ΠΑΝΕΠΙΣΤΗΜΙΟ
ΠΑΤΡΩΝ
UNIVERSITY OF PATRAS

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Lecture 5 – two points

Natural rate of unemployment

- The natural unemployment rate is the minimum unemployment rate resulting from real or voluntary economic forces.
- It represents the number of people unemployed due to the structure of the labor force, such as those replaced by technology or those who lack the skills to get hired.
- Natural unemployment is commonplace in the labor market as workers flow to and from jobs or companies.
- Unemployment is not considered natural if it is cyclical, institutional, or policy-based unemployment.
- Because of natural unemployment, 100% full employment is unattainable in an economy.

Non-Accelerating Inflation Rate of Unemployment (NAIRU)

- ▶ The non-accelerating inflation rate of unemployment (NAIRU) is the lowest level of unemployment that can occur in the economy before inflation starts to inch higher.
- ▶ When unemployment is at the NAIRU level, inflation is steady; when unemployment rises, inflation decreases; when unemployment drops, inflation increases.
- ▶ With no set formula to determine NAIRU, the Federal Reserve has historically used statistical models to put the NAIRU level somewhere between 5% and 6% unemployment, and more recently between 4% and 5%.
- ▶ Assessing the NAIRU level amid its inquiry into inflation and unemployment helps the Federal Reserve in its goal to achieve both maximum employment and price stability.
- ▶ On the downside, NAIRU does not account for the variety of factors that impact inflation, besides unemployment. Also, the historical connection between inflation and unemployment can break down, rendering NAIRU less effective.