

Supplementary content (for HKDSE 2028 and onwards)

More about unemployment and full employment

Based on the cause of unemployment, we can further classify unemployment into different types.

A. Types of unemployment

1. Frictional unemployment

Frictional unemployment¹ refers to unemployment caused by the normal process of workers transitioning between jobs.

This is **voluntary unemployment**².

Cause: Frictional unemployment exists because it takes time for workers to search for jobs that best suit their preferences and skills. Some workers leave their jobs voluntarily over the short term to search for new jobs.

2. Structural unemployment

Structural unemployment³ refers to long-term unemployment caused by the mismatch between unemployed persons and job vacancies that results from structural changes in an economy.

This is considered a form of **involuntary unemployment**⁴, as affected workers are willing to work but lack the qualifications or opportunities to do so.

Cause: When an economy undergoes structural changes, some industries decline while some others grow. For example, in the 1980s, the manufacturing industry declined and the financial industry prospered in Hong Kong. The demand for workers also changes as a result. If the displaced workers and new job openings do not align in terms of the required skills, age or location, structural unemployment results.

3. Cyclical unemployment

Cyclical unemployment⁵ is unemployment caused by economic fluctuations in the business cycle.

This is considered **involuntary unemployment**, as workers lose their jobs due to reduced economic activity, not through voluntary action.

In conclusion,

$$\text{Unemployment rate} = \text{Frictional unemployment rate} + \text{Structural unemployment rate} + \text{Cyclical unemployment rate}$$

1 frictional unemployment 摩擦性失業

2 voluntary unemployment 自願性失業

3 structural unemployment 結構性失業

B. Definition of full employment based on the above concepts of unemployment


Frictional unemployment and structural unemployment always exist in all phases of a business cycle. This is because no matter how good an economy is, people experience regular job transitions and industries undergo structural changes. As a result, economists introduced the term – the natural rate of unemployment¹. This is the level of unemployment that normally exists in an economy.

$$\text{Natural rate of unemployment} = \text{Frictional unemployment rate} + \text{Structural unemployment rate}$$

Since frictional and structural unemployment cannot be fully eliminated, economists define full employment as follows:

Full employment² is attained when an economy has only frictional and structural unemployment.

In other words, **when full employment is attained, the cyclical unemployment rate is equal to zero, and the unemployment rate is equal to the natural rate of unemployment.**

 While frictional and structural unemployment cannot be fully eliminated, they could be reduced. For example, job search websites can help reduce frictional unemployment and retraining programmes can help reduce structural unemployment. In other words, **the natural rate of unemployment may change over time.**

The following graph shows the relationship between the unemployment rate and the natural rate of unemployment:

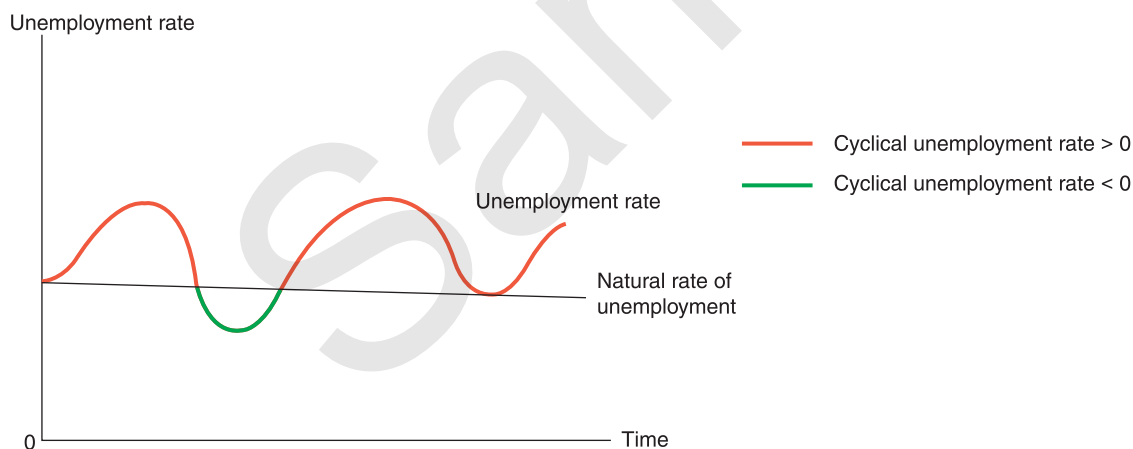


Fig. 1

As shown in Fig. 1, the unemployment rate fluctuates around the natural rate of unemployment: When the economy is poor, the unemployment rate is above the natural rate of unemployment. However, when the economy is good, the unemployment rate may be below the natural rate of unemployment. Therefore, **the cyclical unemployment rate can be positive or negative.**

¹ natural rate of unemployment 自然失業率 ² full employment 充分就業