

Millbrook After the Recession

Millbrook has 500 adults. Here is what each group is doing this month:

- **370** work full-time.
- **10** work part-time but would like full-time hours.
- **6** finished college this spring and are interviewing for jobs.
- **6** used to work at the paper mill, which closed for good after the town moved to digital records. They are applying for jobs, but the openings in town are for nurses and software technicians.
- **8** were laid off from the furniture factory when orders fell during the recession. They are looking for work, and the factory says it will rehire once demand comes back.
- **10** were laid off a year ago. They want jobs but stopped looking because they don't think anyone is hiring.
- **90** are retired, full-time students, or stay at home by choice and are not looking for work.

The mayor says: *“Once this recession ends, everyone who wants a job will have one. Millbrook’s unemployment rate will drop to zero.”*

1. Is the mayor right? What will Millbrook’s unemployment rate be once the recession is over? Show your reasoning.

Solution: Step 1: Who is in the labor force? The part-time workers count as employed. The 10 people who stopped looking are discouraged workers and, like the 90 retirees, students, and people at home, are *not* in the labor force.

$$\text{Employed} = 370 + 10 = 380$$

$$\text{Unemployed} = 6 + 6 + 8 = 20$$

$$\text{Labor force} = 380 + 20 = 400$$

$$\text{Current unemployment rate} = 20/400 = 5\%$$

Step 2: Classify the unemployed.

Group	Type	Number
Recent college graduates	Frictional	6
Paper mill workers	Structural	6
Furniture factory workers	Cyclical	8

Step 3: What does “the recession ends” remove? Only cyclical unemployment. The 8 furniture workers are rehired, but frictional and structural unemployment remain:

$$\frac{6 + 6}{400} = \frac{12}{400} = 3\%$$

The mayor is wrong. Once the recession ends, unemployment falls to the natural rate of 3%, not zero. Even at full employment, some people are between jobs (frictional) and some have skills that don't match the available openings (structural).