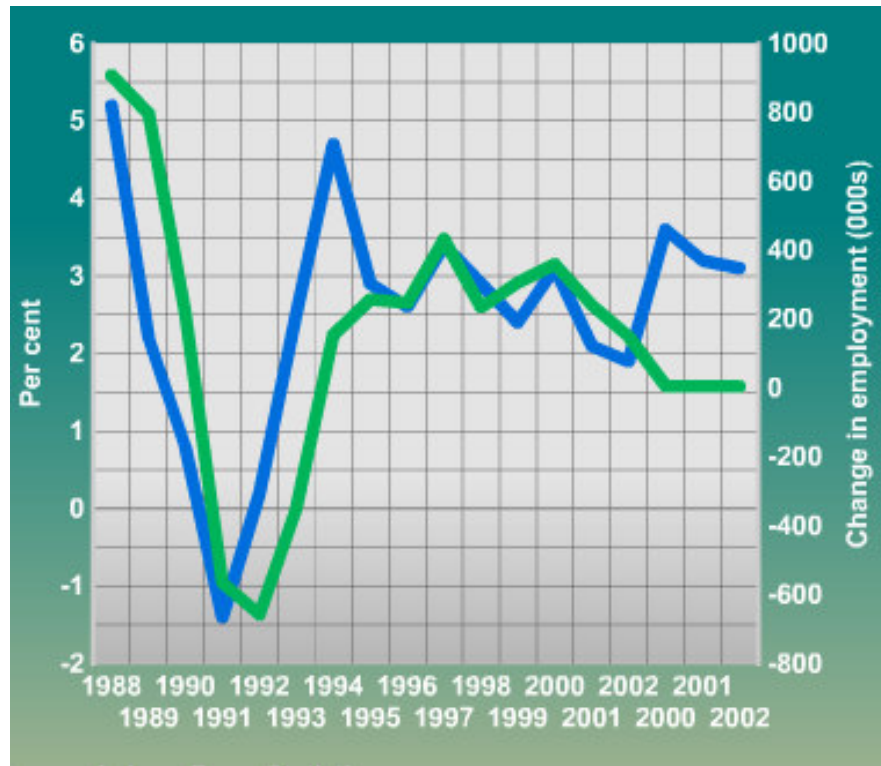


Unemployment and the trade cycle



Blue = Real GDP
Green = Employment

When the economy enters a recession it is producing goods and services below its productive capacity.

This means that fewer workers are required to produce these goods and services, so the rate of employment in an economy falls, causing unemployment.

In a boom workers may work excessively long hours, and demand for employment is high as more goods and services are being produced.

Therefore the demand for employment increases, and so unemployment falls.

This is not sustainable as workers cannot work long hours indefinitely.

Fluctuations in the GDP create 'output gaps' where the economy operates either below or above its long term productive capacity.

There is generally a time lag between changes in GDP and the rate of employment as employers are discouraged to act quickly on the issue of employment due to the expense of recruitment and redundancy.