**Unemployment**

A country’s economic performance is measured using three key indicators, one of which is the **unemployment rate**. When adults who are willing and able to work cannot find a job, it may be a sign that an economy is producing less than it could. On the other hand, unemployment is also a natural phenomenon that even healthy economies experience. While the official unemployment rate is helpful in representing the state of a nation’s workforce, it does have some shortcomings that should be considered, such as excluding discouraged workers.

There are three types of unemployment that economists describe: **frictional**, **structural**, and **cyclical**. During recessions and expansions, the amount of cyclical unemployment changes. Cyclical unemployment is closely related to the business cycle, and causes the deviations of the current rate of unemployment away from the **natural rate of unemployment**.

**THE LABOR FORCE PARTICIPATION RATE (LFPR)**

The labor force participation rate (LFPR) is another measure of labor market activity in the economy. The LFPR is the percentage of the adult population that is in the labor force. The labor force includes everyone who is either employed or unemployed. The adult population is defined as anyone who is over the age of 16 who potentially could be part of the labor force. Anyone who is less than 16 years old, is in the military, or is institutionalized is not considered to be potentially part of the labor force and is excluded from this calculation.

When people enter the labor force the LFPR increases, and when people exit the labor force the LFPR decreases. A decrease in the LFPR that occurs at the same time as a decrease in the unemployment rate can signal that there are more discouraged workers.

**LIMITATIONS OF THE UNEMPLOYMENT RATE**

The unemployment rate as it is measured officially is often criticized for understating the level of joblessness because it excludes anyone working at all or people who aren’t looking for work. In particular, the official unemployment rate leaves out discouraged workers and the underemployed. People who have given up looking for work because they are convinced that they cannot find jobs are considered discouraged workers. Some people are counted as employed because they are working part-time, even though they really want full-time work.

**THREE TYPES OF UNEMPLOYMENT**

Economists primarily focus on three types of unemployment: cyclical, frictional, and structural. Cyclical unemployment is the unemployment associated with the ups and downs of the business cycle. During recessions, cyclical unemployment increases and drives up the unemployment rate. During expansions, cyclical unemployment decreases and drives down the unemployment rate.

**THE NATURAL RATE OF UNEMPLOYMENT**

The natural rate of unemployment (NRU) is the unemployment rate that exists when the economy produces full-employment real output. NRU is equal to the sum of frictional and structural unemployment. When an economy is producing an efficient amount of output (meaning it is operating on its PPC), the unemployment rate will be equal to the natural rate of unemployment. Even though an economy may be operating efficiently, there will still be some unemployment. Because of that, the natural rate of unemployment is never equal to zero.

**CHANGES IN THE NATURAL RATE OF UNEMPLOYMENT (NRU)**

The natural rate of unemployment (NRU) can gradually change over time due to events such as changes in labor force characteristics. The NRU can change due to changes in structural and frictional unemployment. For example, a firm may want to hire fewer workers because the skills of those workers are not needed as much as they used to be. That will cause more structural unemployment, and the natural rate of unemployment will increase.

**Explain with relevant data sources from**<https://www.statista.com/statistics/262524/unemployment-rate-in-saudi-arabia/> .