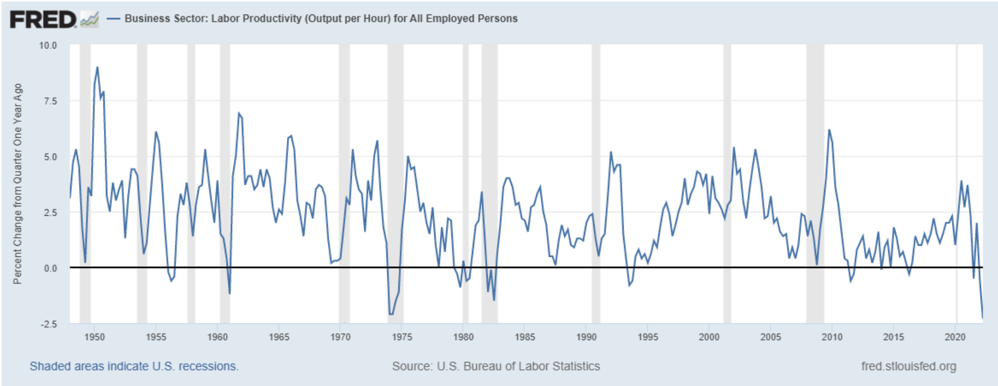
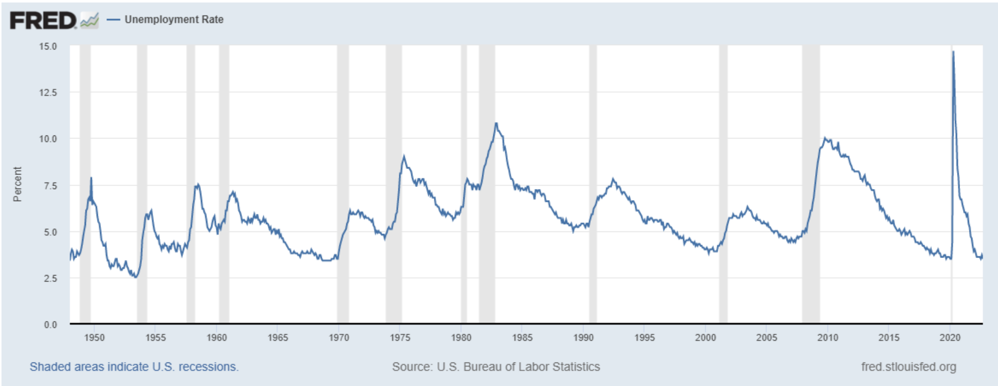
ECO 150: Worksheet for Week 7.

As of the second quarter of 2022, U.S. labor productivity, the amount of output the average worker produces, is down 2.7% over the past year. This is the largest decline since the series began in 1948. It is also a major driver of sluggish GDP growth and high inflation.



This drop in productivity does not seem to have caused a significant decline in unemployment.



Although unemployment has not risen significantly, it does seem that lower productivity could be contributing to lower real wages.


FRED
Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over
Percent Change from Year Ago
10.0
7.5
5.0
2.5
0.0
-2.5
-5.0
-7.5
1985
1990
1995
2000
2005
2010
2015
2020
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org

This worksheet considers four potential explanations for this decline.

1. This article discusses how increased disability might be driving reduced productivity.

If correct, does this impact labor supply or labor demand? Show the impact using a graph of the labor market.

Why is this among the most concerning explanations for reduced labor productivity?

2. Another explanation is "quiet quitting."

Using a graph of the labor market, how would quiet quitting affect unemployment and wages?

True or False? Quiet quitting suggests that lower productivity is also welfare reducing?

3. Another explanation is supply-chain disruptions.

How would supply chain disruptions reduce worker productivity and how would it affect wages and employment?

What does this explanation suggest about upcoming GDP growth and inflation?

4. Finally, this blog piece from Cornell discusses several explanations, including changing worker preferences.

If the pandemic caused workers to put greater weight on leisure, how would that affect the labor market?

Would most economists support policies designed to offset the impacts of changing worker preferences.?