

**Past and Prospective Causes of High Unemployment**  
**by Paul Krugman**  
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**Discussion Questions**

1. How does Krugman reach the conclusion that there has been a rise in structural unemployment in Europe but not in the United States?
  - \* What is structural unemployment? What is the difference between structural and cyclical unemployment? What is the connection between structural unemployment and the natural rate of unemployment?
  - \* What evidence does Krugman offer to support the conclusions he reaches about structural unemployment in Europe and the US?
  - \* Why is a rise in structural unemployment in Europe but not in the United States an important conclusion?
  
2. What economic forces explain, according to Krugman, why the natural rate of unemployment has risen in Europe but not in the US?
  - \* How does Krugman use figures 1 and 2 to explain rising unemployment?

How does one compute the unemployment rate from these figures?  
What forces affect the position of the reservation wage.  
Why does the TT line lie below the PP line?
  - \* What does Krugman mean when he says that "...a likely explanation for this rise is the collision between welfare state policies that attempt to equalize economic outcomes and market forces that are pushing toward greater inequality."?
  - \* Why does Krugman believe that there is a connection between rising inequality in the US and rising unemployment in Europe? What does he mean by inequality?
  - \* Why, according to Krugman, is competition from newly industrializing nations in the third world **not** the cause of either rising unemployment or rising inequality in the US?
  - \* What are the market forces that are pushing toward greater inequality?
  - \* How, according to Krugman, can technological change work against unskilled workers?
  
3. What, if anything, can be done about the problem of rising US inequality and rising European unemployment?