The Economist Review

Human Capital Investment-Unemployment rate Status to the Family level

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TICGL ECONOMIC DATA ANALYSIS

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Human Capital Investment

The ratio of Young Depending ratio members to adults working aged household members has long been used to measures the availability of household resources for Investment.

High dependence ratI'm associated with high Economic growth as a impediments to human Capital For Marion.

This study was taken to examine the potential individuals from the family levels impacts of macro economic growth.

The results suggested that , There's high depending ratio at the family levels by the following:

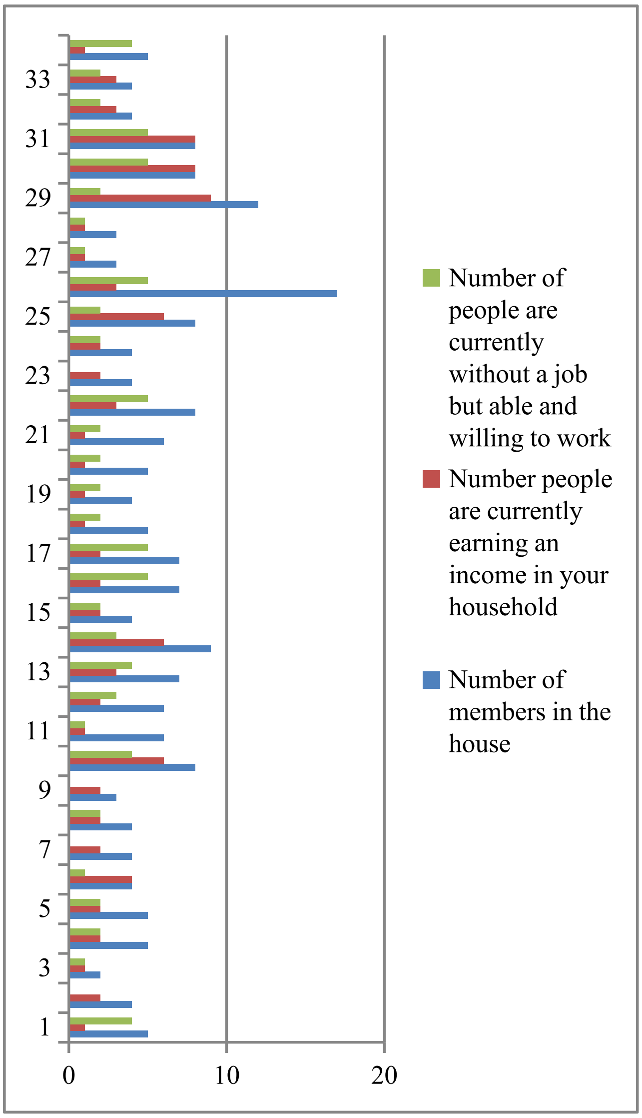
① Total number of members in the household-1218

② Number of people are curt earning an income -665

③ Number of people are currently without a job And Willing to work-553.

"45% of the household total population are without a job but are willing to work with a ratio 1:2 , Each household has maximum of 2 people who are willing to work but he/she is unemployed"

"54% of the household total population are currently earn income at each family levels with a ratio of 1:2, Each family has a maximum of 2 people who earn income"



Human Capital Investment and Economic Implications.

A persistently high unemployment rate is of concern to Congress for a variety of reasons, including its negative consequences for the economic well-being of individuals and its impact on the federal budget.

What appears to matter for a reduction in the unemployment rate is the size of the output gap, that is, the rate of actual output (economic) growth compared with the rate of potential output growth. Potential output is a measure of the economy's capacity to produce goods and services when resources (e.g., labor) are fully utilized. The growth rate of potential output is a function of the growth rates of potential productivity and the labor supply when the economy is at full employment. If potential output growth is about 2.5% annually at full employment, then the growth rate in real gross domestic product (GDP) would have to be greater to yield a falling unemployment rate. How much greater will determine the speed of improvement in the unemployment rate, according to a rule of thumb known as Okun's law.

In its August 2012 economic forecast, the Congressional Budget Office (CBO) estimates that the annual average growth rate of real GDP will gradually approach the growth rate of potential output over the 2012-2022 projection period. As a result of this slow narrowing of the output gap, the unemployment rate is forecast to 1.98% by 2019.

"The persistently high unemployment rate is a cause of concern to Congress for a variety of reasons. Among them are the high rate's deleterious impact on individuals' economic well-being and the budget deficit due to lower revenue and higher expenditures. The slow rebound of the labor market has renewed calls in some quarters for measures to stimulate the economy beyond those Congress has previously enacted.

From a public policy perspective, the main driver of the unemployment rate is the pace of economic growth. This report first examines the long-run relationship between the two economic variables and then narrows its focus to the periods of recovery from the postwar recessions"

The Relationship Between Economic Growth and Unemployment

In the short run, the relationship between economic growth and the unemployment rate may be a loose one. It is not unusual for the unemployment rate to show sustained decline some time after other broad measures of economic activity have turned positive. Hence, it is commonly referred to as a lagging economic indicator. One reason that unemployment may not fall appreciably when economic growth first picks up after a recession's end is that some firms may have underutilized employees on their payrolls because laying off workers when product demand declines and rehiring them when product demand improves has costs. As a result, employers may initially be able to increase output to meet rising demand at the outset of a recovery without hiring additional workers by raising the productivity of their current employees. This temporarily boosts labor productivity growth above its trend (long-run) rate.

Once the labor on hand is fully utilized, output can grow no faster than the rate of productivity growth until firms begin adding workers. As an economic expansion progresses, output growth will be determined by the combined rates of growth in the labor supply and labor productivity. As long as growth in real gross domestic product (GDP) exceeds growth in labor productivity, employment will rise. If employment growth is more rapid than labor force growth, the unemployment rate will fall.

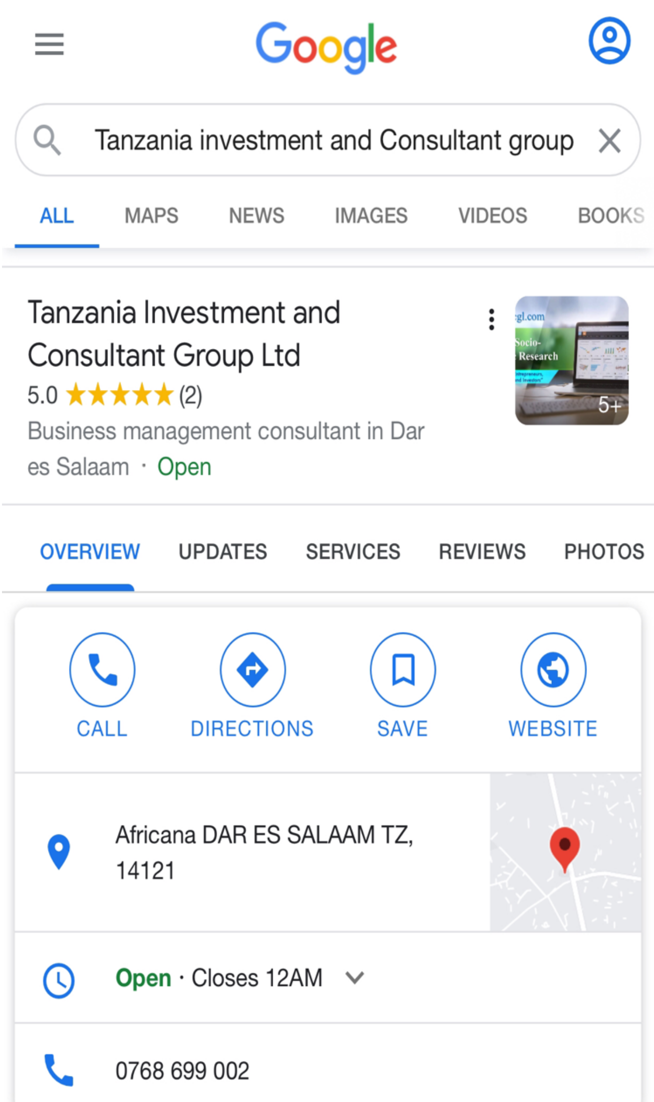
Over an extended period of time, there is a negative relationship between changes in the rates of real GDP growth and unemployment. This long-run relationship between the two economic variables was most famously pointed out in the early 1960s by economist Arthur Okun. "Okun's law" has been included in a list of "core ideas" that are widely accepted in the economics profession. Okun's law, which economists have expanded upon since it was first articulated, states that real GDP growth about equal to the rate of potential output growth usually is required to maintain a stable unemployment rate.

Thus, the key to the long-run relationship between changes in the rates of GDP growth and unemployment is the rate of growth in potential output. Potential output is an unobservable measure of the capacity of the economy to produce goods and services when available resources, such as labor and capital, are fully utilized. The rate of growth of potential output is a function of the rate of growth in potential productivity and the labor supply when the economy is at full employment.4 When the unemployment rate is high, as it is now, then actual GDP falls short of potential GDP. This is referred to as the output gap.

In the absence of productivity growth, as long as each new addition to the labor force is employed, growth in output will equal growth in the labor supply. If the rate of GDP growth falls below the rate of labor force growth, there will not be enough new jobs created to accommodate all new job seekers. As a result, the proportion of the labor force that is employed will fall. Put differently, the unemployment rate will rise. If the rate of output growth exceeds the rate of labor force growth, some of the new jobs created by employers to satisfy the rising demand for their goods and services will be filled by drawing from the pool of unemployed workers. In other words, the unemployment rate will fall.

If GDP growth equals labor force growth in the presence of productivity growth, more people will be entering the labor force than are needed to produce a given amount of goods and services. The share of the labor force that is employed will fall. Expressed differently, the unemployment rate will rise. Only as long as GDP growth exceeds the combined growth rates of the labor force and productivity (potential output) will the unemployment rate fall in the long run.

Knowing what that rate of GDP growth is might be useful to policymakers interested in undertaking stimulus policies to bring down the unemployment rate. But as just stated, the rate of output growth necessary to lower the unemployment rate requires knowledge of the rates of labor force and productivity growth. Both have changed over time.



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For enquiries please contact:

Tanzania Investment and Consultant Group Ltd

P.O.Box 8269

Dar es Salaam ,Tanzania

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