**Explain the concept of the natural rate of unemployment and the factors determining it.**

The natural rate of unemployment refers to the level of unemployment when the labour market is in equilibrium. It is the rate of unemployment where real wages have found their free market level that is where aggregate demand of labour equals the aggregate supply of labour. On a Phillips curve diagram it is where the Long run Phillips curve intersects the unemployment axis (see diagram below). It includes those who are frictionally and structurally unemployed. Frictional unemployment occurs when workers are between jobs, whereas structural unemployment occurs as a result of changes in firms demand for labour skills and is caused by occupational and geographical immobility. The natural rate can be viewed as the quantity of voluntary unemployment as a percentage of the labour force.

A number of factors influence the natural rate of unemployment and are mainly associated with the supply side of the economy. The availability of education and training will influence the extent of structural unemployment. If workers are unable to secure jobs following the closure of an industry retraining if available will enable workers to benefit from improved occupational mobility which will help to reduce the levels of those who are structurally unemployed and therefore the natural rate.

Changes to welfare payments including unemployment benefits such as JSA will also influence the natural rate. Cuts made to JSA will provide an incentive for those out of work and refusing to accept the prevailing wage to take up work more quickly thus reducing the levels of those who are frictionally unemployed.