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<input type="checkbox"/>	Doctor's thesis

Subject	Economics	Date	13.1.2004
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		Number of pages	75
Title	Trade Unions and Unemployment in Finland		
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Abstract

According to the theory of hysteresis, temporary shocks affecting actual unemployment could have permanent effects on “the structural characteristics of labour and commodity markets”. Hysteresis on the other hand is a descendant of the actions of trade unions. The purpose of this thesis is to examine the part trade unions play in determining unemployment in Finland. This thesis starts, however, by introducing theoretically how trade unions work. The first part of the thesis presents the models frequently used to cover wage negotiations in economic literature. This leads on to other theories on trade union activity affecting the labour market, like the counter cyclical movement of wage rates, and hysteresis.

The second part of the thesis explains how wages are determined in Finland and shows the current situation in the Finnish labour market. The third part of the thesis presents the theoretical framework for testing the hypothesis that trade unions according to the theory of hysteresis cause persistence in unemployment. The results of this research show that hysteresis is a phenomenon of some relevance in the Finnish labour market. However, unemployment persistence is not to be blamed on hysteresis alone. It is not exactly clear how much of the persistence is caused by hysteresis and how much by other factors, some of which might be related to legislation and administrative issues.

Key words	Trade unions, unemployment persistence, hysteresis, NAIRU
Further information	