How does the labor market work?

- Just like any other market
- Different from other markets,
  explaining unemployment
  - Job search
    - Efficient wages
    - Minimum wages
    - Arbitrary wages
  - In order, outsider

Emphasized in this course
3) Sticky wages

2) Job rationing

1) Job search

Fluctuations for three main reasons:

- Unemployment is ever present, and its rate
- Unemployment
- The economy of full employment

Keynesian view
Explain Unemployment

- Sticky Wages
  - Wages do not adjust as quickly as prices do.

  If the demand for labor falls, a surplus of labor exists.

  However, since wages do not adjust rapidly, the surplus of labor will persist and unemployment is temporarily high.
Sticky Wages

- sticky nominal wages

\[ P \]
\[ SRAS \]
\[ W \text{ in constant along SRAS} \]

Commodity market diagram

- sticky real wages

\[ W/P \]
\[ N_S \]
\[ N_D \]
\[ N \]
\[ GDP \]

supported by business cycle data

Labor market diagram

Ch 12, 13
DREALWAGE VS. DCPI

DIFF(U0M320,1)

Rsq = 0.5144

Source: BC files, 1Q72...4Q92

*** MULTIPLE REGRESSION ***

Listwise Deletion of Missing Data

Equation Number 1  Dependent Variable: DREALWAGE DIFF(RREALWAGE,1)
Block Number 1  Method: Enter DUGM320

Variable(s) Entered on Step Number
1. DUGM320 DIFF(U0M320,1)

Multiple R .71724
R Square .51443
Adjusted R Square .50836
Standard Error 4.78223E-03

Analysis of Variance

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<th></th>
<th>DF</th>
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<th>Mean Square</th>
<th>Sig</th>
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<td>F</td>
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------------- Variables in the Equation -------------

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<th>SE B</th>
<th>Beta</th>
<th>T</th>
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<td>.001160</td>
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End Block Number 1  All requested variables entered.
Sticky Wages and Unemployment

Sticky wage

LS

LD₀

LD₁

15 14

Real wage rate (1992 dollars per hour)

Labor (billions of hours per year)

205 210 215
Sticky Wages and Unemployment

Real wage rate (1992 dollars per hour)

Labor (billions of hours per year)

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