

# **Quiz on Rationing Unemployment**

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### Question 1

If the production function is  $Y = a \times N$  in the matching model (where  $a$  is productivity and  $N$  is the number of producers), what is shape of the labor demand curve in the usual (employment, tightness) diagram?

- A. Downward sloping
- B. Upward sloping
- C. Vertical
- D. Horizontal
- E. None of the above

### Question 2

In the matching model described in the previous question, is there any rationing unemployment?

- A. Yes, if wages are rigid.
- B. Yes, if wages are obtained by Nash bargaining.
- C. Yes, because the unemployment rate is always positive.
- D. No, because job rationing requires a downward-sloping labor demand in the usual (employment, tightness) diagram.
- E. No, because rationing unemployment cannot exist in matching models.

### Question 3

In a matching model with rigid wage and diminishing marginal returns to labor, what happens to frictional and rationing unemployment over the business cycle?

- A. In bad times, rationing unemployment is high but frictional unemployment is low, and total unemployment is high.
- B. In bad times, rationing unemployment is high but frictional unemployment is low, so total unemployment is low.

- C. In bad times, both rationing unemployment and frictional unemployment are high, so total unemployment is high.
- D. All unemployment is frictional at any point over the business cycle.
- E. All unemployment is rationing at any point over the business cycle.
- F. In bad times, frictional unemployment is high but rationing unemployment is low, and total unemployment is high.
- G. None of the above.

#### **Question 4**

In the model of the previous question, which policy would effectively reduce unemployment in bad times?

- A. Building a placement agency to help firms with recruiting.
- B. Building a placement agency to monitor jobseekers' search.
- C. Subsidizing wages to stimulate labor demand.
- D. Increasing the minimum wage to support low-wage workers.
- E. None of these policies would be particularly effective.