

# Chapter 7: The Labor Market

*Summary*, by JF Viray

## A: Wage Determination

Similar to the nominal v. real GDP, we also have the nominal v. real interest rate. The **nominal interest rate** ( $i_t$ ) is the interest rate in terms of dollars while the **real interest rate** ( $r_t$ ) is the interest rate in terms of a basket of goods. Now, we will try to find the relation between the two.

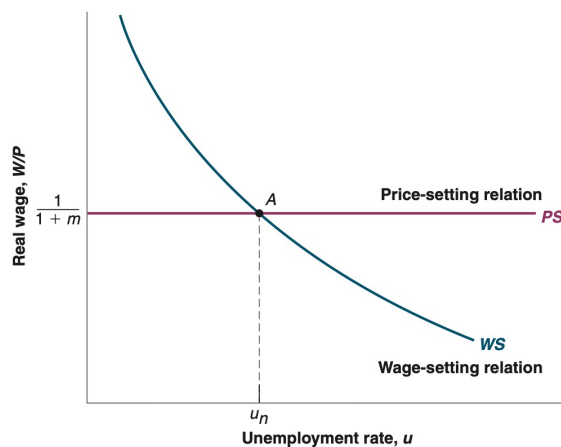


Figure 1: Wages, Prices, and the Natural Rate of Unemployment

## B: Price Determination

## C: The Natural Rate of Unemployment