

SOCIAL PSYCHOLOGY, UNEMPLOYMENT AND MACROECONOMICS

William Darity Jr. and Arthur H. Goldsmith

11th January 2024

RESEARCH QUESTION

- How does the psychological well-being of individuals who are exposed to unemployment affect their productivity, wages and labor supply.
- Being jobless adversely affects psychological health and this in turn affects motivation to work.
- Economists incorporate psychological factors by calling them exogenous factors such as tastes and preferences and human capital endowment.
- Need to model psychological well-being as they affect "tastes and preferences" and are determined endogenously from an individuals economic circumstance.

CONTRIBUTION TO LITERATURE

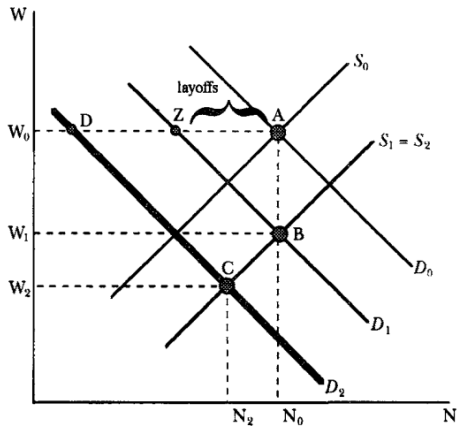
- Influence of social psychological factors on productivity- Kalecki (1943) and Robinson (1937). **Authors incorporate social-psychology literature to build a behavioral model of the macroeconomy.**
- Macro models explaining movements in consumption, investment, equity markets (Keynes, 1936; Katona, 1968; White, 1994) either ignore psychological influences or call them exogenous disturbances. Author's model **includes psychological well being directly and the economic condition and psychological health are endogenous.**
- Typical macro models - labor supply and demand depends only on real wages. **Authors introduce another factor- psychological wellbeing.**
- Provides a framework that questions a singular natural rate of unemployment as well as the definition of full employment.

MAIN ELEMENTS OF THE ANSWER TO THE RESEARCH QUESTION

- To introduce psychological well-being, need to quantify it- Minnesota Multiphasic Personality Inventory Survey, Rosenberg Survey, General Health Questionnaire, National Longitudinal Survey of Youths.
- Main element of behavioral model-
 - Labor efficiency being dependent on the psychological state of labor force which depends on labor force history.
 - Labor supply depends on labor force attachment which depends on psychological state. labor force attachment manifests in the form of “tastes and preferences”
 - Explains unemployment in medium run.

BEHAVIORAL MODEL- GRAPHICALLY

Aggregate Labor Market



LIMITATIONS

- Scales to quantify psychological wellbeing range from 567 question surveys (MMPI) to 10 question surveys (Rosenberg).
- Hard to empirically disentangle changes in tastes and preferences occurring exogenously with those occurring due to exposure to unemployment.
- Exposure to unemployment is usually concurrent to exposure to a general economic downturn. Psychological impact may be underestimated.