

Divine Beveridge-Wicksell Framework

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Assumptions

- neo-Wicksellian model (Woodford 2003)
 - ↳ model in which ^{nominal} interest rate can stabilize the economy
 - ↳ dynamic model of state (Michaillat & Saez 2022)
 - ↳ model in which monetary policy is nonneutral & conducted through nominal interest rate
- divine coincidence (Blandhard & Gali 2007)
 - ↳ inflation will be at its target level when unemployment rate is efficient
 - ↳ 2 objectives of Fed (price stability + full employment) are aligned, no tradeoff
 - ↳ Michaillat & Saez (2022)
 - a) inflation is fixed / exogenous
 - b) price dynamics are such that inflation reaches target when $u = u^*$
 - ↳ Blandhard & Gali' (2010)

- Beveridge curve → there is unemployment in model
 - efficient unemployment rate can be measured by sufficient statistics
 - ↳ $u^* = \sqrt{u \cdot v}$

⇒ Divine Wichall-Beveridge framework

→ Franchical Business-Cycle model: simplest DWB model.

→ will develop formula for any DWB model.