

Pricing on the Labor and Product Markets

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Product market pricing:

- Bilateral monopoly & customer match surplus created when firm
- Need to assume a price nom: $p = p^n(x, \theta)$
- Bargained price \rightarrow flexible so x does not respond to AD/AS shocks
 - \rightarrow no fluctuations in price over business cycle.
- Rigid price \rightarrow moves in direction of bargained price but by lesser amount
 - \rightarrow comparative statics are same as fixed price
- For simplicity: assume fixed price $p > 0$.

Labour market pricing:

- Bilateral monopoly & job applicant meet surplus created when firm
- Need to assume a wage nom to determine nominal wage: $w = w^n(x, \theta)$
- Bargained wage \rightarrow tightness θ does not respond to labour demand & supply shocks.
- Rigid wage \rightarrow wage moves in direction of bargained wage but by a

lesser quantity

→ same comparative statics
as w/ fixed wage

- Assume a fixed nominal wage $w > 0$.