Comparing Unemployment and Vacancies to Assess Efficiency

Pascal Michaillat
https://www.pascalmichaillat.org/t5.html

Efficient unemployment rate : $u^* = \sqrt{uv}$

Economy is inefficiently slack : $u > u^*$

$\Leftrightarrow \quad u > \sqrt{uv}$

$\Leftrightarrow \quad \sqrt{u} > \sqrt{v}$

$\Leftrightarrow \quad \boxed{u > v}$

Economy is inefficiently tight: $u < u^*$

$\Leftrightarrow \quad \boxed{u < v}$

Economy is efficient. $u = u^* \Leftrightarrow \boxed{u = v}$

↳ Beveridge (1944): first mention of Beveridge curve (u & v move in opposite directions) & discussion of full employment (~ efficient unemployment) being reached when $u \approx v$

Express results in terms of market tightness $\theta = v/u$

- Efficient : $\boxed{\theta^* = 1}$

- Inefficiently slack. $\theta < 1$
- Inefficiently tight: $\theta > 1$