Macro Roundup Article

Headline: Do Unexpected Inflationary Shocks Raise Workers' Wages?

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Author(s)	Jacob Weber
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Tweet: A model developed by @NewYork Fed researchers suggests that wage-posting firms have no incentive to raise wages in response to inflationary supply shocks since these shocks don't increase the risk of employees being poached by other firms.

Summary: There is little reason for wage-posting firms to change wages in response to a "pure" inflationary supply shock that raises workers' cost of living without affecting their productivity. A wage-posting firm will thus raise wages [only] if it perceives a heightened need to defend itself from losing employees to other firms or to unemployment. Does an inflationary supply shock that raises workers' cost of living heighten these concerns?   We think not. In practice few American workers quit into unemployment, so firms primarily view other firms as their competition when posting wages. And if the cost of living is irrelevant to a worker choosing between wage offers at different firms, then an inflationary shock that raises the cost of living doesn't make it any easier or harder for a higher-wage firm to poach workers than before.

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Primary Topic: Inflation

Topics: GDP, Inflation, Op-Ed/Blog Post, Wages/Income, Workforce

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