Part IIA Macroeconomics
Michaelmas 2013
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Unemployment and Labour Markets
Supervision 2

Short questions

(1) Show graphically and explain how each of the following changes affects reservation wage on the McCalls model of job search seen in class:
   (a) a decrease in unemployment benefits.
   (b) an increase in the subjective discount factor, β, of workers (workers are less impatient).

(2) (Tripos 2004) Hysteresis is often used to explain unemployment.
   (a) What is unemployment hysteresis and why does it emerge?
   (b) Explain whether the theoretical arguments for hysteresis are consistent with the empirical evidence on unemployment.

(3) In macroeconomic models based on rigorous microfoundations, involuntary unemployment can be explained in a number of ways.
   (a) How is involuntary unemployment explained in models of imperfect competition?
   (b) Explain how involuntary unemployment can emerge even when price-taking behaviour in labour and product markets is assumed.
   (c) What other forms of market failure can be used as the basis for theories of involuntary unemployment in the macroeconomy?

Essay (800 words max)

(4) (Tripos 2009) Discuss the notion of a trade-off between inflation and unemployment from a theoretical and empirical perspective. (max 800 words).

Readings

- Barro (1997) Macroeconomics, 5th edition, chapters 6 and 13.
- Jones, C. I. (2008), Macroeconomics, Norton, chapter 7
- Williamson (2008) Macroeconomics, 3rd edition, chapter 16.

Further Readings[1]

- Abel, Bernanke and McNabb (1998) Macroeconomics, chapters 8 and 13
- Blanchard (2005) Macroeconomics. 4th edition, chapters 6, 8, and 9.
- Carlin, W. and Soskice, D. (1990) Macroeconomics and the Wage Bargain, Oxford University Press.
- Mankiw (2002) Macroeconomics, 5th edition.
- McCall, John J. (1970) Economics of Information and Job Search. Quarterly Journal of Economics 84 (1), 113-126.
- Stigler, George (1961) The Economics of Information Journal of Political Economy, 69 (3), 213-225.

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[1]Some of the listed papers are seminal works and therefore can be a bit dense to read.