

230929 – LR Employment

Why is labor supply upward sloping? Why is labor demand downward sloping?

How does labor supply shift when taxes increase?

How does an increase in the price of oil shift labor demand?

How does equilibrium labor change after a decrease in labor demand **when wages are downward rigid**?

Why are wages downward rigid?

$$\text{Unemployment} = \text{Frictional} + \text{Structural} + \text{Cyclical}$$

Frictional:

Structural:

Cyclical:

230929 – SR Unemployment & PDV

$$E_t + U_t = \bar{L}$$

$$\Delta U_{t+1} = \bar{s}E_t + \bar{f}U_t$$

Natural rate of unemployment comes from the steady state of the bathtub model ($\Delta U = 0$)

$$u^* = \frac{\bar{s}}{\bar{f} + \bar{s}}$$

PDV (payoff of x, t years in the future, discounting at R):	PDV (payoff of x, every year from 0 to t, discounting at R):
$\frac{x}{(1+R)^t}$	$x * \frac{1 - \left[\frac{1}{1+R}\right]^t}{1 - \left[\frac{1}{1+R}\right]}$