Vacancy rate

Beveridge curve

Higher welfare

Isowelfare curve:

$(1 - \zeta)u + \kappa v = \text{constant}$

0

Unemployment rate

Vacancy rate

Beveridge curve

Inefficient

Higher welfare

Isowelfare curve:

$(1 - \zeta)u + \kappa v = $ constant

0

Unemployment rate

Beveridge curve

Efficiency: $v'(u) = -\dfrac{1-\zeta}{\kappa}$

Isowelfare curve

Vacancy rate

0

Unemployment rate

Beveridge curve

Inefficiently high tightness

Isowelfare curve

Vacancy rate

Unemployment rate

0

$$y^d(\theta) = \left[\frac{\delta - i + \pi}{\sigma'(0)}\right]^{\epsilon} \cdot \frac{1}{[1 + \tau(\theta)]^{\epsilon - 1}}$$

$$y^d(\theta) = \left[\frac{\delta - i + \pi}{\sigma'(0)}\right]^{\epsilon} \cdot \frac{1}{[1 + \tau(\theta)]^{\epsilon - 1}}$$

AS

Tightness

θ^*

AD

0

Capacity

Output

$$y^d(\theta) = \left[\frac{\delta - i + \pi}{\sigma'(0)}\right]^\epsilon \cdot \frac{1}{[1 + \tau(\theta)]^{\epsilon-1}}$$
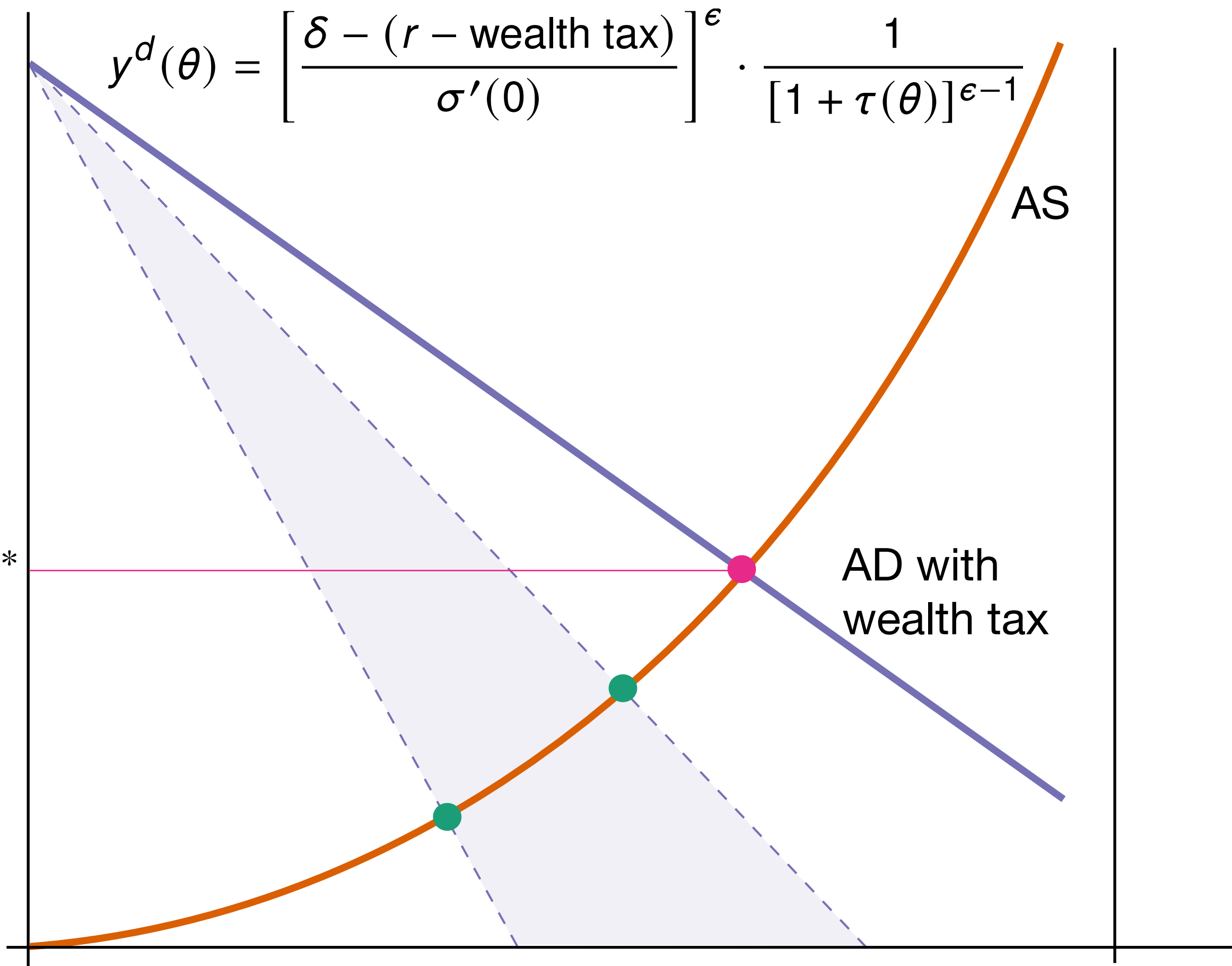
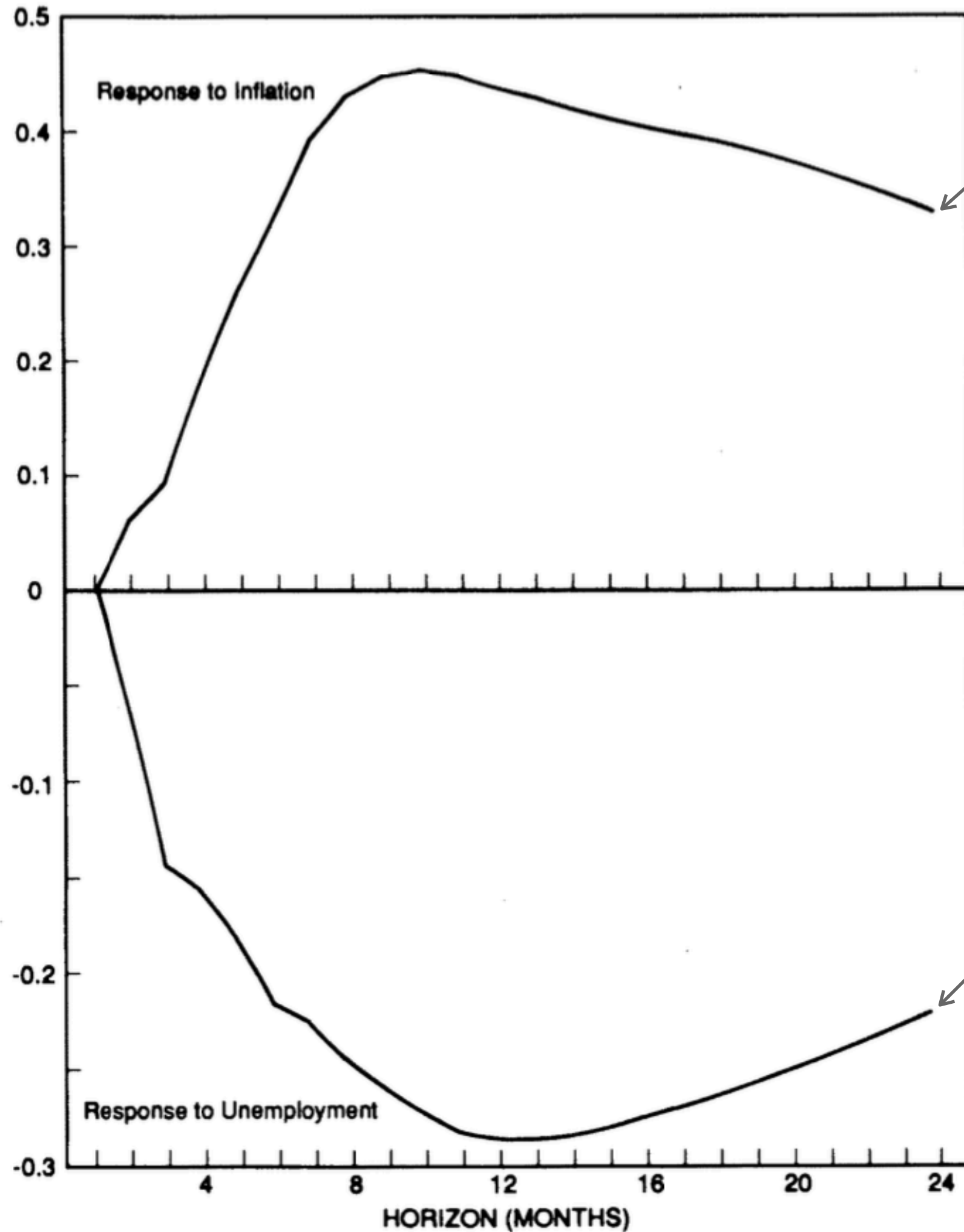$$y^d(\theta) = \left[\frac{\delta - i + \pi}{\sigma'(0)}\right]^\epsilon \cdot \frac{1}{[1 + \tau(\theta)]^{\epsilon - 1}}$$

Tightness

AS

AD

AD @ ZLB

θ^*

θ

0

Output

Capacity

$$y^d(\theta) = \left[\frac{\delta - i + \pi}{\sigma'(0)}\right]^\epsilon \cdot \frac{1}{[1 + \tau(\theta)]^{\epsilon - 1}}$$

$$y^d(\theta) = \left[\frac{\delta - (r - \text{wealth tax})}{\sigma'(0)}\right]^\epsilon \cdot \frac{1}{[1 + \tau(\theta)]^{\epsilon-1}}$$

AS

AD with wealth tax

θ^*

0

Capacity

Output

Tightness

Response to Inflation

Response of FFR to increase in inflation by 2.15pp

Response to Unemployment

Response of FFR to increase in unemployment by 0.18pp

HORIZON (MONTHS)

$520 billion

unemployment multiplier