

Quiz on Frictional and Rationing Unemployment

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Question 1

If the production function is $Y = a \times N$ in the matching model (where a is productivity and N is the number of producers), what is shape of the labor demand curve in the usual (employment, tightness) diagram?

- A) Downward sloping
- B) Upward sloping
- C) Vertical
- D) Horizontal
- E) None of the above

Question 2

In the matching model described in the previous question, is there any rationing unemployment?

- A) Yes, if wages are rigid.
- B) Yes, if wages are obtained by Nash bargaining.
- C) Yes, because the unemployment rate is always positive.
- D) No, because job rationing requires a downward-sloping labor demand in the usual (employment, tightness) diagram.
- E) No, because rationing unemployment cannot exist in matching models.

Question 3

In a matching model with rigid wage and diminishing marginal returns to labor, what happens to frictional and rationing unemployment over the business cycle?

- A) In bad times, rationing unemployment is high but frictional unemployment is low, and total unemployment is high.
- B) In bad times, rationing unemployment is high but frictional unemployment is low, so total unemployment is low.

- C) In bad times, both rationing unemployment and frictional unemployment are high, so total unemployment is high.
- D) All unemployment is frictional at any point over the business cycle.
- E) All unemployment is rationing at any point over the business cycle.
- F) In bad times, frictional unemployment is high but rationing unemployment is low, and total unemployment is high.
- G) None of the above.

Question 4

In the model of the previous question, which policy would effectively reduce unemployment in bad times?

- A) Building a placement agency to help firms with recruiting.
- B) Building a placement agency to monitor jobseekers' search.
- C) Subsidizing wages to stimulate labor demand.
- D) Increasing the minimum wage to support low-wage workers.
- E) None of these policies would be particularly effective.