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During Recessions, **wages do not fall easily**...

Firms prefer to fire unskilled workers and to keep skilled workers **at the same pay**: Job security increases productivity and reduces the cost of inexperience and training

Recessionary gaps last longer because wages and prices do not fall easily

The self correcting mechanism operates only weakly to cure recessions: there is an argument to be made in favor of stabilization policies during recessions



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# The Effect of an Increase in **both** Supply and Demand

