Equilibrium Unemployment Theory 2nd Edition

Dissatisfied with the explanations of the business cycle provided by the Keynesian, monetarist, New Keynesian, and real business cycle schools, Edmund Phelps has developed from various existing strands-some modern and some classical--a radically different theory to account for the long periods of unemployment that have dogged the economies of the United States and Western Europe since the early 1970s. Phelps sees secular shifts and long swings of the unemployment rate as structural in nature. That is, they are typically the result of movements in the natural rate of unemployment (to which the equilibrium path is always tending) rather than of long-persisting deviations around a natural rate itself impervious to changing structure. What has been lacking is a "structuralist" theory of how the natural rate is disturbed by real demand and supply shocks, foreign and domestic, and the adjustments they set in motion. To study the determination of the natural rate path, Phelps constructs three stylized general equilibrium models, each one built around a distinct kind of asset in which firms invest and which is important for the hiring decision. An element of these models is the modern economics of the labor market whereby firms, in seeking to dampen their employees' propensities to quit and shirk, drive wages above market-clearing levels-the phenomenon of the "incentive wage"--and so generate involuntary unemployment in labor-

market equilibrium. Another element is the capital market, where interest rates are disturbed by demand and supply shocks such as shifts in profitability, thrift, productivity, and the rate of technical progress and population increase. A general-equilibrium analysis shows how various real shocks, operating through interest rates upon the demand for employees and through the propensity to quit and shirk upon the incentive wage, act upon the natural rate (and thus equilibrium path). In an econometric and historical section, the new theory of economic activity is submitted to certain empirical tests against global postwar data. In the final section the author draws from the theory some suggestions for government policy measures that would best serve to combat structural slumps.
A general equilibrium model with unemployment is developed to evaluate the

cost of equilibrium unemployment in an economy by comparing responses to policy changes in equilibrium unemployment economy to the full employment equilibrium economy. Model can assess the cost and benefits of unemployment and transfer programmes. Analysis of impacts of uniform capital and labour income taxes in the multi-household multi-sectoral general equilibrium model with unemployment shows that such unemployment is not necessarily growth retarding in the long run when economy runs through the dynamic adjustment process. Lower labour supply raises wage rates and labour income, consumption and saving by households and production and accumulation of capital by firms. In base as usual scenario the inequality of income and consumption persists if no measures are taken to reduce such inequality.

The General Theory of Employment, Interest, and Money, written by legendary author John Maynard Keynes is widely considered to be one of the top 100 greatest books of all time. This masterpiece was published right after the Great Depression. It sought to bring about a revolution, commonly referred to as the 'Keynesian Revolution', in the way economists thought—especially challenging the proposition that a market economy tends naturally to restore itself to full employment on its own. Regarded widely as the cornerstone of Keynesian thought, this book challenged the established classical economics and introduced new concepts. 'The General Theory of Employment, Interest, and Money' transformed economics and changed the face of modern macroeconomics. Keynes' argument is based on the idea that the level of employment is not determined by

the price of labour, but by the spending of money. It gave way to an entirely new approach where employment, inflation and the market economy are concerned.
A Signaling Theory of Unemployment

A Simple Illustrative Model
Fluctuations in Equilibrium Unemployment
Equilibrium Unemployment Theory
Fluctuation in Equilibrium Unemployment
In a modern economy, production and competition require internal interaction of individuals in firms. The book provides a systematic treatment of the macroeconomic consequenses of this fact. For this purpose the concept of a two-stage monopolistic competition equilibrium is introduced into macroeconomic theory. Firms choose the capacity to organize internal interaction at stage 1 and compete at stage 2. The

concept allows a rigorous analysis of the provision of work places and the economic determinants of the employable work force. The book explains why in the equilibrium of a market economy, even under flexible wages, no jobs may be provided for people who are employable from an efficiency point of view. The economic determinants of equilibrium employment covered by the analysis of the book are: New forms of work organization, changes in the skill structure of the labor force, market power of key factors for organization, expectations of investors and international capital movements.
Equilibrium Unemployment Theory, second editionMIT Press
Under the insider wage model of Mortensen and Pissarides [Mortensen, D.T., Pissarides, C.A., 1994. Job creation and job destruction in the theory of

unemployment. Review of Economic Studies 61, 397-415], this paper shows that (1) severance pay negatively affects market tightness (vacancy to unemployment ratio) and (2) the amount of severance pay is limited thereby insuring the employer a rational bargaining outcome.

A Theory of Short- and Long-run Equilibrium Unemployment

Efficiency Wage Models of the Labor Market

A simple theory of optimal redistributive taxation with equilibrium unemployment

Structural Slumps

The Cyclical Behavior of Equilibrium Unemployment and Vacancies

Equilibrium, Disequilibrium and Unemployment Theory

Seminar paper from the year 2013 in the subject Economics - Job market economics, grade: 1,7, Heriot-Watt

University Edinburgh (School of Management and Languages), language: English, abstract: Considering the ILO reporting 6.00% unemployment rate for the world in 2012 (ILO Report 2013), it is obvious that unemployment is a commonly observed phenomenon. Chart 1 displays the devel-opment of the unemployment rate for 20 OECD countries2 from 1955 until 2011. The average of all these countries in 2011 was 7.67%; of the EU 15 alone was 8.41%. In order to explain why unemployment occurs, the first part of this essay will deal with the different general theories of unemployment. Following this, the specific issue of European unemployment will be treated in the second part. This essay will conclude then with the author´s estimation which theory explains

European unemployment best.
An integrated framework to study the theoretical and quantitative properties of economies with frictions in labor, financial, and goods markets. This book offers an integrated framework to study the theoretical and quantitative properties of economies with frictions in multiple markets. Building on analyses of markets with frictions by 2010 Nobel laureates Peter A. Diamond, Dale T. Mortensen, and Christopher A. Pissarides, which provided a new theoretical approach to search markets, the book applies this new paradigm to labor, finance, and goods markets. It shows, in particular, how frictions in different markets interact with each other. The book first covers the main developments in the analysis of the labor market in the presence of frictions, offering a systematic analysis

of the dynamics of this environment and explaining the notion of macroeconomic volatility. Then, building on the generality and simplicity of the search analysis, the book adapts it to other markets, developing the tools and concepts to analyze friction in these markets. The book goes beyond the traditional general equilibrium analysis of markets, which is often frictionless. It begins with the standard analysis of a single market, and then sequentially integrates more markets into the analysis, progressing from labor to financial to goods markets. Along the way, the book provides a number of useful results and insights, including the existence of a direct link between search frictions and the degree of volatility in the economy.

This paper presents a non-equilibrium, agent-based model of workers and firms, with on-the-job searching, endogenous entrepreneurial decisions and endogenous wage and income determination. Workers and firms are heterogeneous, and learn their strategy in the labor market. The model is able to reproduce a number of stylized facts generally accepted in labor economics and industrial organization, such as the Wage, Beveridge and Okun curve, and the skewness of wage, income and firm size distribution. Most interestingly, important stylized facts such as a negatively sloped Wage Curve and a constant returns to scale matching function emerge only out-of-equilibrium, during the adjustment processes toward the stationary state. Thus, from a theoretical point of view the model suggests that taking these stylized facts as quot;building blocksquot; of equilibrium models might be misleading. The results stress two additional points. From a methodological point of view, the use of non-equilibrium computational models allows for a more comprehensive investigation of the labor market, by considering the endogenous character of many relevant variables. From an empirical point of view, the joint determination of all aggregate relationships and their dependence on the equilibrium or non-equilibrium state of the system suggest to move from the investigation of empirical regularities in isolation one from the other to a joint analysis.

Regional Equilibrium Unemployment Theory at the Age of the Internet
Seven Schools of Macroeconomic Thought
Clashing theories of unemployment
The Theory of Labor Market Equilibrium

The Macroeconomics of Search and Unemployment
Evidence and Theory
Search Theory and Unemployment contains nine chapters that survey and extend the theory of job search and its application to the problem of unemployment. The volume ranges from surveys of job search theory that take microeconomic and macroeconomic perspectives to original theoretical contributions which focus on the externalities arising from non-sequential search and search under imperfect information. It includes a clear and authoritative survey of econometric methods that have been developed to estimate models of job search, as well as two lucid contributions to the empirical search

literature. Finally, it includes a study that reviews and extends the literature on optimal unemployment insurance and concludes with an appraisal of the influence of search theory on the thinking of macroeconomic policymakers.

This book focuses on the modeling of the transitions in and out of unemployment, given the stochastic processes that break up jobs and lead to the formation of new jobs, and on the implications of this approach for macroeconomic equilibrium and for the efficiency of the labor market. An equilibrium theory of unemployment assumes that firms and workers maximize their payoffs under rational expectations and that wages are determined to exploit the private gains from trade. This book focuses on the modeling of the transitions in and out of unemployment, given the stochastic processes that break up jobs and lead to the formation of new jobs, and on the implications of this approach for macroeconomic equilibrium and for the efficiency of the labor market. This approach to labor market equilibrium and unemployment has been successful in explaining the determinants of the "natural" rate of unemployment and new data on job and worker flows, in modeling the labor market in equilibrium business cycle and growth models, and in analyzing welfare policy. The second edition contains two new chapters, one on endogenous job destruction and one on search on the job and job-to-job quitting. The rest of

the book has been extensively rewritten and, in several cases, simplified.
This paper presents a signaling explanation for unemployment. The basic idea is that employment at an unskilled job may be regarded as a bad signal. Therefore, good workers who are more likely to qualify for employment at a skilled job in the future are better off being unemployed than accepting an unskilled job. We present conditions under which all equilibria satisfying the Cho-Kreps intuitive criterion involve unemployment. However, there always exist budget balancing wage subsidies and taxes that eliminate unemployment. Also, for any unemployment equilibrium, either there always exists a set of Pareto improving wage taxes and

subsidies, or we give conditions under which there exists a set of Pareto improving wage taxes and subsidies.
Theory and Some Evidence
Unemployment Equilibrium and Input Prices
Clashing Theories of Unemployment
The Modern Equilibrium Theory of Unemployment, Interest, and Assets
Severance Payments in Equilibrium Unemployment
General Equilibrium with Unemployment
This paper argues that a broad class of search models cannot generate the observed business-cycle-frequency fluctuations in unemployment and job vacancies in response to shocks of a plausible magnitude. In the

U.S., the vacancy-unemployment ratio is 20 times as volatile as average labor productivity, while under weak assumptions, search models predict that the vacancy-unemployment ratio and labor productivity have nearly the same variance. I establish this claim both using analytical comparative statics in a very general deterministic search model and using simulations of a stochastic version of the model. I show that a shock that changes average labor productivity primarily alters the present value of wages, generating only a small movement along a downward sloping Beveridge curve (unemployment-vacancy

locus). A shock to the job destruction rate generates a counterfactually positive correlation between unemployment and vacancies. In both cases, the shock is only slightly amplified and the model exhibits virtually no propagation. I reconcile these findings with an existing literature and argue that the source of the model's failure is lack of wage rigidity, a consequence of the assumption that wages are determined by Nash bargaining
Kalecki's opus has been acknowledged chiefly as a contribution to the theory of distribution and the business cycle. Little attention has been

given to the theory of effective demand and to unemployment equilibrium, i.e. to the field traditionally covered by Keynesian economics. This book is an attempt to draw attention to the most innovative core of Kalecki's thought on capitalist economies, which is also strictly interrelated to the history of economic thought. Accordingly, it focuses on the relationships with other theoretical approaches, to methodology and the theory of effective demand and investment, to the theory of distribution and prices, and to the theory of money.
In this paper, we present a spatial equilibrium model where

search frictions hinder the immediate reallocation of workers both within and across local labour markets. Because of the frictions, firms and workers find themselves in bilateral monopoly positions when determining wages. Although workers are not at each instant perfectly mobile across cities, in the baseline model we assume that workers flows are sufficient to equate expected utility across markets. We use the model to explore the joint determination of wages, unemployment, house prices and city size (or migration). A key role of the model is to clarify conditions under which this type of spatial *equilibrium setup can be estimated. We then use U.S. data over the period 1970-2007 to explore the fit of model and it quantitative properties of the model. Our main goal is to highlight forces that influence spatial equilibria at 10 year intervals.*

Unemployment Theories and Unemployment in Europe

Unemployment Equilibria and Input Prices

Theory and Estimation

A General Equilibrium Theory of Urban Unemployment and Wage Determination

Essays in Search Theory

Equilibrium unemployment theory

Fluctuations in the equilibrium rate of unemployment can only be understood within a theory of the natural or equilibrium rate. It is not enough to say that unemployment is the difference between supply and demand in the labor market, though of course it always will be. In equilibrium, no participants in the market can have an unexploited opportunity to make themselves better off. At the equilibrium unemployment rate, employers cannot obtain labor at lower cost by offering work at below the market wage to the unemployed. Unemployed workers cannot raise their effective real incomes by taking lower wages in exchange for immediate employment. The task of the theory is to explain why any unemployment remains at all when these conditions are satisfied. Part of this problem has been studied in detail in the "search theory" of unemployment -- once a worker becomes unemployed, it is reasonably well understood why the worker does not become employed again immediately. The theory of why people become unemployed in the first place is less well developed and is the main concern of this paper. Most of the unemployed are looking for new work because their previous jobs ran out. Consequently, the main ingredient of a theory of the flow of workers into unemployment is a theory of the duration of employment. Such a theory is developed here, along reasonably standard lines

General-equilibrium models for studying monetary influences in general and the zero lower bound on the nominal interest rate in particular contain implicit theories of unemployment. In some cases, the theory is explicit. When the nominal rate is above the level that clears the current market for output, the excess supply shows up as diminished output, lower employment, and higher unemployment. Quite separately, the Diamond-Mortensen-Pissarides model is a widely accepted and well-developed account of turnover, wage determination, and unemployment. The DMP model is a clashing theory of unemployment, in the sense that its determinants of unemployment do not include any variables that signal an excess supply of current output. In consequence, a general-equilibrium monetary model with a DMP labor market generally has no equilibrium. After demonstrating the clash in a minimal but adequate setting, I consider modifications of the DMP model that permit the complete model to have an equilibrium. No fully satisfactory modification has yet appeared.

A selection of key papers from the winners of the Nobel Memorial Prize 2010. It features their most important work on unemployment, labour market dynamics, and the equilibrium search model.

second edition

A Structural Model of Equilibrium Unemployment

Labor, Credit, and Goods Markets

Toward a Non-Equilibrium Unemployment Theory

Trade, FDI, and Equilibrium Unemployment

Theory and Evidence from the United States

The contributors explore the

reasons why involuntary unemployment happens when supply equals demand. This paper studies equilibrium unemployment in a two-region economy with matching frictions, where workers and jobs are free to move and wages are bargained over. Job-seekers choose between searching locally or searching in both regions. Search-matching externalities are amplified by the latter possibility and by the fact that some workers can simultaneously receive a job offer from each region. The rest of the framework builds upon Moretti (2011). Increasing the matching effectiveness out of the region of residence has an ambiguous impact on unemployment rates. While it reduces the probability of remaining unemployed, it also decreases labor demand because of a lower acceptance rate. We characterize the optimal allocation and conclude that the Hosios condition is not sufficient to restore efficiency. A numerical exercise indicates that the loss in net output is non negligible and rising in the

matching effectiveness in the other region.
(cont.) It appears that the existence of firms that wish to employ multiple workers is not per se a source of much amplification. Finally, Daron Acemoglu and I present a generalization of the Diamond-Mortensen-Pissarides (DMP) search model of unemployment which incorporates both intensive and extensive margins of employment creation. Firms possess a production technology with diminishing returns to labor, and recruit workers by

posting vacancies. Entry by new firms corresponds to the extensive margin of employment creation, while job creation by existing firms captures the intensive margin. As in the baseline DMP model and theories of the firm developed by Stole and Zwiebel (1996a,b) and Wolinsky (2000), wages are determined by continuous bargaining between the firm and its employees. We characterize the steady-state equilibrium in this class of models and discuss the implications of various different types of shocks on

the equilibrium unemployment rate.
Spatial Equilibrium with Unemployment and Wage Bargaining
A Theory of Equilibrium Unemployment Rates
Equilibrium Unemployment Theory, second edition
The Conflict Between Equilibrium and Disequilibrium Theories
Search Theory and Unemployment
Problems of the Modern Economy
This book offers an excellent survey of various macroeconomic topics which feature prominently

in the research agenda and have inspired both theoretical and policy debate. The book presents an authoritative and comprehensive summary and original critique of modern macroeconomic approaches by a scholar whose own contribution to the field is considerable. In each of his seven chapters, the author reviews one school of economic thought. These are: the Keynesian school of macroeconomics; the monetarist school; the New Classical school; the New-Keynesian school; supply side macroeconomics, and `non-monetary' models of macroeconomics - the real business cycle theory and the `structuralist school' which views changes in unemployment as the outcome of shifts in the structural characteristics of the economy. The book is the text of the first series of Ryde Lectures, established by Lund University in Sweden.

Job Matching, Wage Dispersion, and Unemployment

Macroeconomic Equilibrium and Internal Organization of Work

A Theory of Employment in Firms

Theory and Application

Kalecki and Unemployment Equilibrium

The General Theory of Employment, Interest, and Money