

XI) Unemployment Mankiw 8th chapter 6, 7th ch. 6

A) Introduction

- 1) Review
- 2) Puzzle: perfectly competitive labor market, excess supply of labor?
- 3) Answer: labor market isn't like that
 - a) Frictional unemployment (job search)
 - b) Structural unemployment (real wage rigidity)

B) How economists think about equilibrium unemployment: inflows and outflows

- 1) u, E, L, U
- 2) Rate of job separation s
- 3) Rate of job "finding" f
- 4) Equilibrium

C) Frictional unemployment

- 1) Definition
- 2) Government policies
 - a) Employment agencies, retraining programs
 - b) Unemployment insurance

D) Structural unemployment

- 1) Definition
- 2) Minimum wage laws
- 3) Unions
- 4) Efficiency wages
 - a) What phrase means
 - b) Why it could be true
 - i) Nutrition
 - ii) Turnover
 - iii) Effort on the job
 - iv) Quality of average employee

XII) Some important things you have learned

A) Fisher ideal index numbers

B) What makes countries rich, poor

- 1) A country's average income, living standards reflect its aggregate production function
- 2) What makes countries rich *versus* poor
 - a) Savings (or investment) rate *versus* population growth
 - b) Something we left out: human capital
 - c) Open questions

C) Business cycle theory

- 1) Potential output
- 2) Real business cycle theory
- 3) Keynesian theory of business cycles: price level is "sticky"
 - a) Price-level adjustments needed to keep $Y = \bar{Y}$
 - b) How price level really adjusts: $p = p^e + \frac{1}{\alpha}(Y - \bar{Y})$
(expectations-augmented Phillips curve)
 - c) Open questions

D) How our economy works

- 1) Why central banks set r not M
- 2) Inflation targeting
- 3) Why recessions happen
- 4) Fiscal policy

E) International trade in goods, services, financial assets

- 1) Relationship between net exports and net capital outflow
- 2) What a trade deficit/surplus means