Unemployment

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Some quick thoughts at the end of the course. Looked at the issues through two very different approaches.

- **SVARs.** Shocks and propagation mechanisms. Just interpreted models. Minimum theory.

- **DMP models.** Tightly specified models. Productivity, wage bargaining, profits, job creation, unemployment.
The facts as I see them.

- Productivity shocks build slowly over time. Effect on output is limited at the start. (Slow diffusion of technology, or slow anticipation effects on demand and output?)

- Actual unemployment may increase at the start.

- Natural rate of unemployment appear to decrease at the start. At a given rate of inflation, able to maintain lower unemployment. (US in the 1990s).

  At this stage, anecdotal. This needs to be done right.
The main questions as I see them.

- The nature of productivity growth. Productivity growth versus reallocation.


  The Graal: the aggregate wage setting equation: slope, and shifts (in particular income effect)