

Unemployment

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Nr. 1

2-6. Productivity growth, output, and unemployment

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.
- How does productivity growth get into real wages? Neo-classical: Wealth effect on reservation wage. Relevant for the unemployed? Role of unemployment benefits, of assets.

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