Eco 242 Eshragh Motahar

MACROECONOMIC THEORY AND POLICY

The Labour Market

- ***Wage-setting equation***

$$W = P^e F(u, z).$$

- ***Price-setting equation***

$$P = (1 + m)W.$$

- ***Equilibrium (the "natural rate of unemployment")***

$$F(u_n, z) = \frac{1}{1+m}.$$

The natural rate of unemployment is the unemployment rate such that the real wage chosen in wage setting is equal to the real wage implied by price setting.

Based on Blanchard, 7th edition, chapter 7.