

10. Unemployment

Exercise 10.1.

Derive the Formula for the natural rate of unemployment in our Job Market Matching model. How does the natural rate of unemployment respond to changes in the job-finding and the Separation-rate?

Exercise 10.2. (Barro 10.6.)

Suppose that the labor force has 100 million people, of whom 92 million initially have jobs and 8 million are unemployed. Assume that the job-separation rate is 1% per month and the job-finding rate is 20% per month. Also, assume that we can neglect movements in and out of the labor force. Trace out the time path of employment and unemployment. What is the natural unemployment rate?