Discussion of "Involuntary Unemployment and the Business Cycle" by Lawrence J. Christiano, Mathias Trabandt, and Karl Walentin

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The MP paradigm

- Hiring and separations are flows; employment and unemployment are state variables.
- Preferences are linear, so personal wealth is not a determinant of labor supply.
- All workers hold jobs or seek work all the time; participation is not modeled.
- Job-seekers all exert the same fixed amount of effort.
- Employers exert recruiting effort to the point of eliminating any pure profit from hiring.
- Workers and employers bargain over compensation with fixed shares of the surplus around 0.5.

Search and matching

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$$q(n) = \phi(\theta(n))/\theta(n)$$

The employment contract

Employers pay workers w_t units of output for each hour of work in period t.

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Thus the employment contract embodies efficient two-part pricing.

Employment function

Payoff to a vacancy:

$$q(n_t)y_t - \gamma$$

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The employment rate that solves this zero-profit condition is a function $n(y)$, which I call the *employment function*.

Employment and labor force as percent of population

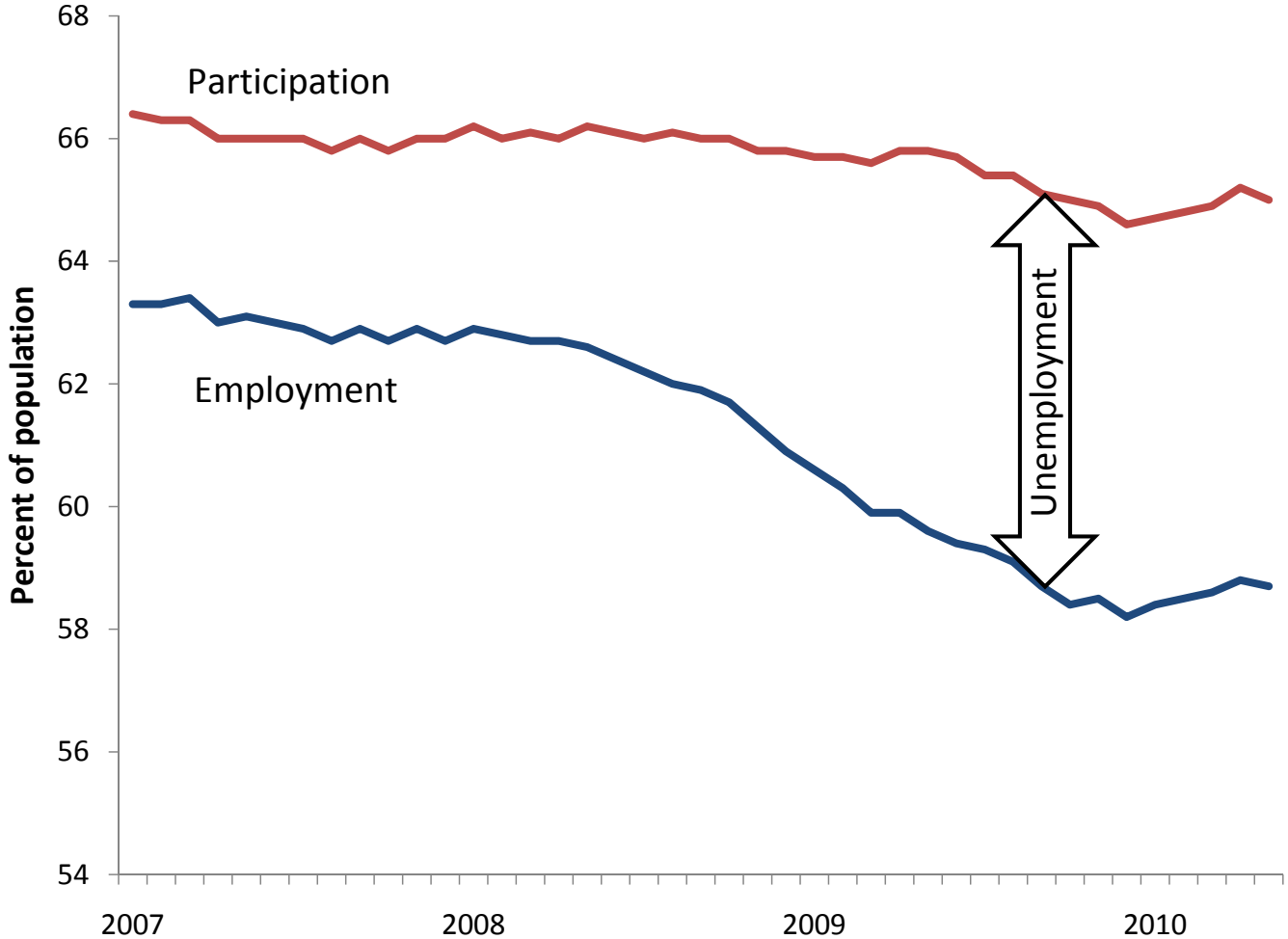
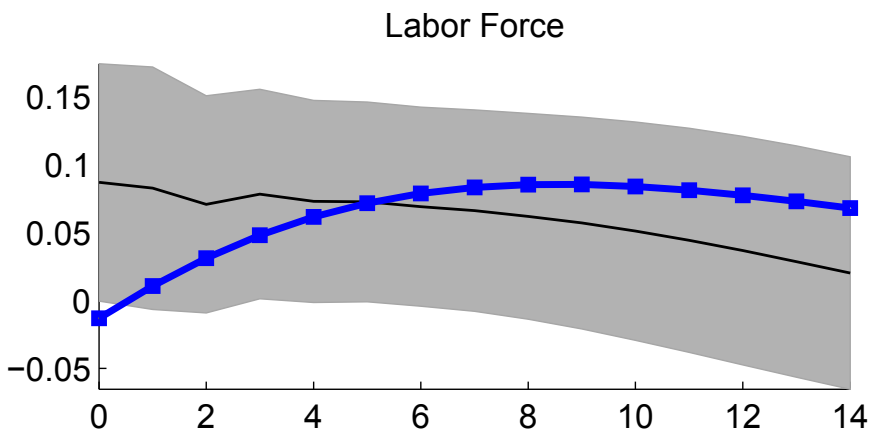


Figure 4, neutral tech shock



Relative movements of unemployment and labor force

	US data	*CTW*		
		Money	*Tech*	*Invest*
Unemployment rate, Dec 2007	5.0	0	0	0
Dec 2009	10.0	-0.09	-0.12	-0.09
Labor force Dec 2007	66.0	0	0	0
Dec 2009	64.6	0.06	0.09	0.05
d log (labor force)/d u	-0.43	-0.67	-0.75	-0.56

Distributions of consumption with and without perfect unemployment insurance