

# Core Macroeconomics

Hillary Term 2008

## Week 3: Unemployment and Labor Markets

### Reading

Unemployment is a major preoccupation of most governments. Begin with section 2.6 and chapters 4 and 18 of Carlin & Soskice (2006)\*\* and Romer (2006)\*\* chapter 9 (pay particular attention to sections 2 and 4 – and note that this was chapter 10 in previous editions). See also Burda & Wyplosz (2005) chapter 4 and Mankiw (2005) chapter 6 for background material. Layard, Nickell & Jackman (2005)\*\* chapter 1 is also an important reference on this topic, along with Nickell (1997), Nickell (1998), Nickell, Nunziata & Ochel (2005)\*\* and Nickell (2005). Carlin & Soskice (1990)\*\* chapter 6 contains a very accessible account of the differences between the NAIRU and the NRU. Crafts & Woodward (1991) chapters 6 and 7 provide a UK historical perspective. You may also wish to look at the articles in the Ball & Mankiw (2002), Tobin (1993) and the *Oxford Review of Economic Policy* issue of Spring 1995.

Take notes on:

1. The Natural Rate of Unemployment.
2. The NAIRU
3. Efficiency Wages
4. Hysteresis
5. Insiders and Outsiders
6. Real Wage Rigidity, Nominal Wage Rigidity and Nominal Inertia
7. What has happened to UK unemployment since the first oil shock?

### Essay

**A:** "How might a country go about lowering NAIRU? What are the welfare implications of doing so?" (1999)

**B:** "Supply shocks lead to classical unemployment; demand shocks lead to Keynesian unemployment; cost push shocks lead to both." Disentangle. (2005).

### References

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- Nickell, S., Nunziata, L. & Ochel, W. (2005), 'Unemployment in the OECD since the 1960s. What do we know?', *Economic Journal* **115**(500), 1–27.
- Romer, D. (2006), *Advanced Macroeconomics*, 3 edn, McGraw-Hill Higher Education.
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