

New Economic School

Macroeconomics 2

Problem set 2

Instructor: Andrei Sarychev

Due on November 17th

1. Recall the *efficiency wage* rationale for the existence of equilibrium unemployment. Suppose that with the advent of computers and networks it becomes much easier to *monitor* employees' performance, both in terms of time spent working and work quality (with detailed activity logs it is more often possible to trace production faults to their culprits). Assume that there is no direct impact of the new technology on productivity. How is this going to influence the wage-setting equation? What is the likely impact on the natural rate of unemployment, if any? On the natural level of output? Explain in detail.
2. In the search frictions model of the imperfect labour market, what is the likely impact on u_n of the use of the Internet for quicker matching of vacancies with workers? You do not need to confine yourself by the wage-setting formula of the lectures. Assuming the markup is close to zero (market for individual goods are competitive), what is going to happen to wages in relation to the marginal product of labour?
3. Using the AS-AD model of the lectures augmented with the expectations adjustment formula $P_{t+1}^e = P_t$, show the effects of an increase in consumer confidence (c_0) on the position of the IS, LM, AD, and AS curves in the short, medium, and long term. Summarise the effects on output, interest rate, and the price level at all times. While discussing short run, explain in words, using one of the models of the imperfect labour market, how equilibrium in that market is restored after the initial adjustment in aggregate demand (period $\frac{1}{2}$).