Class Outline (prepared by Edinaldo Tebaldi, TA)

Homework assigned (see website)

A model of the labor market
Real wages, employment (unemployment), and the natural level of unemployment
1) The Supply Side: The Wage-Asking relation curve
   a) Wage determination: Bargaining power and efficiency wages

2) The demand side: The Wage-Offering relation curve
   a) Connection between prices and wages
   b) The mark down or mark up
   c) The production function

3) Equilibrium
Main questions discussed in class
Why are the labor market flows occurring?
What are the variables being analyzed in this model?
Where is P determined?
Where is W determined?
What is negotiated in the labor market (nominal or real wages)?
What is perfect competition? Imperfect competition?
What do we assume about the labor market (perfect/imperfect competition)?
Why would workers have any bargaining power?
What is determined bargain power?
What is 'reservation wage'?
What is the main idea behind the efficiency wage theory? How does that reduce turnover?
What is the real wage?
What is unemployment insurance?
How would firms set wages in perfect competition? How is wage set in the model developed in class (imperfect competition)?