Seminar/Assignment set 3

1. Show that the optimal reservation wage in the basic model (Equation 6 in C&Z Ch.3:1.1.1) is the one that maximizes V_u.
2. Calculate the expressions of the comparative statics of the basic model that are discussed on p.113 of the book and discuss the signs.
3. What happens with the reservation wage of job seekers if the wage dispersion between jobs increases?
4. Discuss how the reservation wage depends on the arrival rate of job offers in different states if on-the-job search is possible (Ch 3:1.2.2)
5. Discuss how business cycle variation (exogenous variation expressed by the labour market status) affect job seekers search effort and reservation wage.
6. Discuss how the public authorities may affect the equilibrium unemployment rate in an economy with search friction, profit maximising wage setting firms (endogenous wage distribution) and utility maximizing workers.
7. Discuss what happens with the equilibrium unemployment rate and firms' size distribution if the labour force and firms grow at the same exogenous constant rate. What happens if a one-time only increase occurs in the labour force?