Equilibrium Unemployment*

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Abstract

A search-theoretic model of equilibrium unemployment is constructed and shown to be consistent with the key regularities of the labor market and standard facts about the business cycle. The two distinguishing features of this work are: (i) the decision to accept or reject jobs is modeled explicitly, and (ii) markets are incomplete. The framework is well suited to address a number of interesting policy questions. Two such applications are provided: the impact of unemployment insurance, and the welfare costs of business cycles.


JEL Classifications: E24, E32

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