PETER SINCLAIR

Unemployment

Economic Theory and Evidence

TECHNISCHE HOCHSCHULE
DARMSTADT
Inv.-Nr.:
7413
WIRTSCHAFTSPOLITIK
(VWL II)

Basil Blackwell

Contents

Preface			vii
Chapter	1	Unemployment: The Evidence	1
	1.1	Introduction	1
	1.2	The Definition of Unemployment	1
	1.3	International Comparisons of Unemployment: A First Look at the Data	3
	1.4	The Historical Record: Aggregate Unemployment Rates	7
	1.5	Who are the Unemployed? I: Certain Characteristics	21
	1.6	Who are the Unemployed? II: Other Characteristics	30
	1.7	Some Effects of Unemployment	34
	1.8	Concluding Remarks	36
Chapter	2	Unemployment and the Demand for Labour	38
	2.1	Introduction	38
	2.2	The Demand for Labour by a Competitive Firm: The Simple Case	38
	2.3	Generalizing the Simple Competitive Model of the Demand for Labour	40
	2.4	Some Reasons why Wage Rates may be Sticky, in the Face of Unemployment	54
	2.5	Concluding Remarks	59
Chapter	3	The Quantity-rationing Model: A Geometrical Account	60
	3.1	Introduction	60
	3.2	Fundamental Assumptions	60
	3.3	Walrasian Equilibrium	62
	3.4	What Can Happen when Markets Fail to Clear: A Taxonomy of Quantity-rationing Equilibria	65
	3.5	Keynesian Unemployment	67
	3.6	Classical Unemployment	71
	3.7	Repressed Inflation	73
	3.8	Some Extensions	75

Chapter	4	Fix Price Models: Some Detailed Analysis	81
	4.1	Introduction	81
	4.2	The Simple Static General Model (SSGM)	81
	4.3	The Cobb–Douglas Special Case	91
	4.4	Extension to Many Sectors	93
	4.5	Extension to Partial Rationing Among Households	94
	4.6	Wages and Investment	97
Chapter	5	Fiscally Induced Unemployment: A Geometrical Account of the Demand and Supply of Unemployment	102
	5.1	Introduction	102
	5.2	Assumptions	102
	5.3	The Demand for Unemployment	103
	5.4	The Supply of Unemployment, I: The Unemployment Benefit Case	105
	5.5	The Supply of Unemployment, II: The Transfer Payment Case	106
	5.6	Combining the Demand and Supply Curves for Unemployment	109
	5.7	Optimum Levels of Unemployment	113
	5.8	An Important Qualification	115
Chapter	6	The Optimum Distribution of Income and Unemployment: Further Analysis	118
	6.1	Introduction	118
	6.2	The Optimum Distribution of Income	118
	6.3	The Linear Income Tax System	125
	6.4	Unemployment Benefit Models	135
	6.5	Another Approach to Optimum Unemployment	136
Chapter	7	Shocks that can and may have Generated Unemployment, I: Monetary Shocks	138
	7.1	Introduction	138
	7.2	Money Supply Shocks in a Closed Economy	138
	7.3	Money Supply Shocks in an Open Economy: Floating Exchange Rates	142
	7.4	Money Supply Shocks in an Open Economy: Fixed Exchange Rates	146
	7.5	Demand for Money Shocks	147
Chapter	8	Shocks that can and may have Generated Unemployment, II: Real Shocks	149
	8.1	The Nasty Side to Nice News: Natural Resource Shocks	149
	8.2	Oil Price Shocks	151
	8.3	Technology Shocks	153

	8.4	Other Shocks	153
	8.5	Concluding Remarks	155
Chapter 9		Implicit Contracts	157
	9.1	Introduction	157
	9.2	The Simplest Model: Background and Assumptions	157
	9.3	Analysis and Implications of the Simplest Model	160
	9.4	Generalizations: Relaxing the Assumptions of the Simplest Model	165
Chapter 10		Search Theories of Unemployment	182
	10.1	Introduction	182
	10.2	A Simple Model of Search	182
	10.3	Relaxing the First Five Assumptions of the Simple Model of Search	183
	10.4	Introducing Randomness in Job Offers	185
Chapter 11		Unions, Wages and Unemployment	188
	11.1	Introduction	188
	11.2	A Simple Union Model	188
	11.3	Further Implications and Generalizations of the Simple Union Model	192
	11.4	General Models of an Economy with Unions	201
Chapter 12		Inflation and Unemployment	207
	12.1	Introduction	207
	12.2	Evidence and Explanations for the Inflation–Unemployment Link	207
	12.3	Do Rational Expectations Nullify Systematic Policy Intervention by the Authorities?	213
	12.4	The Costs and Benefits of Inflation (or Policies that Generate Inflation)	221
	12.5	Two Issues of Dynamics	223
Chapter 13		Unemployment Breeds Unemployment	227
	13.1	Introduction	227
	13.2	Pre-empting and Spot Hiring	227
	13.3	Imitation by Employers	231
	13.4	Household Preferences may Vary with Unemployment	232
	13.5	Unemployment Increases the Costs, and Lowers the Chances of Success, of Searching for Another Job	234
	13.6	Multiple Unemployment Equilibria in Quantity-rationing Models	235
	13.7	Conclusion	236
Chapter 14		Is a Share System Preferable to a Wage System?	238
	14.1	Introduction: The Questions	238

	14.2	The Contrast Between Japanese and Western Payments Systems	238
	14.3	Analysis: The Wage and Share Systems Compared When Both Parties are Neutral to Risk	239
	14.4	The Wage and Share Systems when one Party (or both) is Averse to Risk	241
	14.5	The VHGU (Variable Hours, Guaranteed Utility) System	243
	14.6	A Fundamental Flaw in the Share System	245
	14.7	Some Further Benefits of the Share System	245
	14.8	Summary and Conclusion	246
Chapter 15		Does Steadier Employment Mean More Employment?	248
	15.1	Introduction	248
	15.2	The Demand for Labour on the Part of a Risk-averse Firm	248
	15.3	Random Disturbances and the Quantity-rationing Model	250
	15.4	Erring on the High Side: The Quantity-rationing Case	252
	15.5	Erring on the High Side: Labour Monopsony	254
	15.6	The Mean and Variance of Employment under Different Contract Systems	256
	15.7	Factors that Could Create a Positive Association Between the Mean and Variance of Employment	257
	15.8	Summary	258
Chapter 16		Policies to Combat Unemployment	259
	16.1	Introduction	259
	16.2	Employment Subsidies	260
	16.3	Some Less Advisable 'Solutions' to Unemployment	268
	16.4	Policy Recommendations to Lower Unemployment in the UK	276
	16.5	Unemployment Policy: A Summing Up	292
Notes			294
Bibliography			297
Index			306