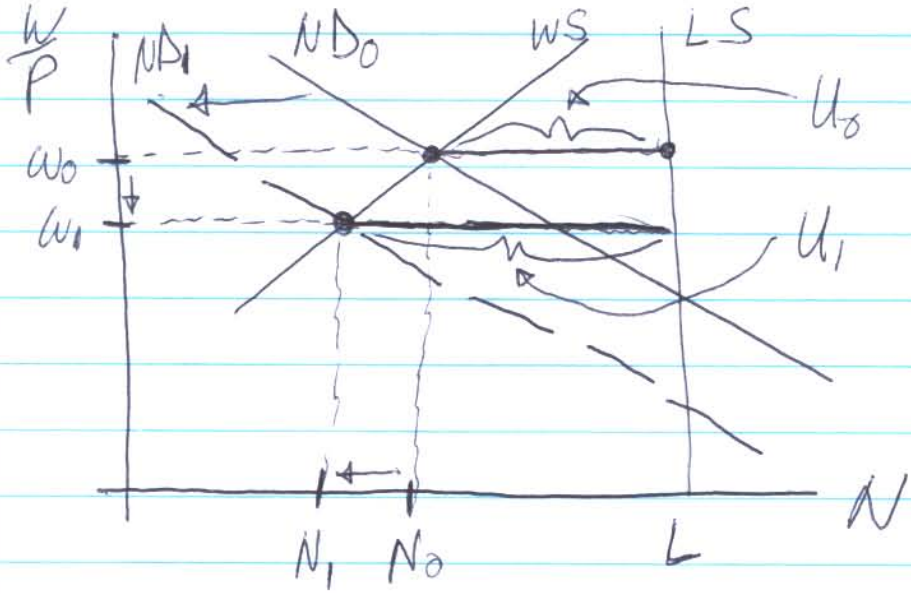
Solutions to H.W. Questions (3 of them) about our Keynesian Labor Market Equilibrium Model

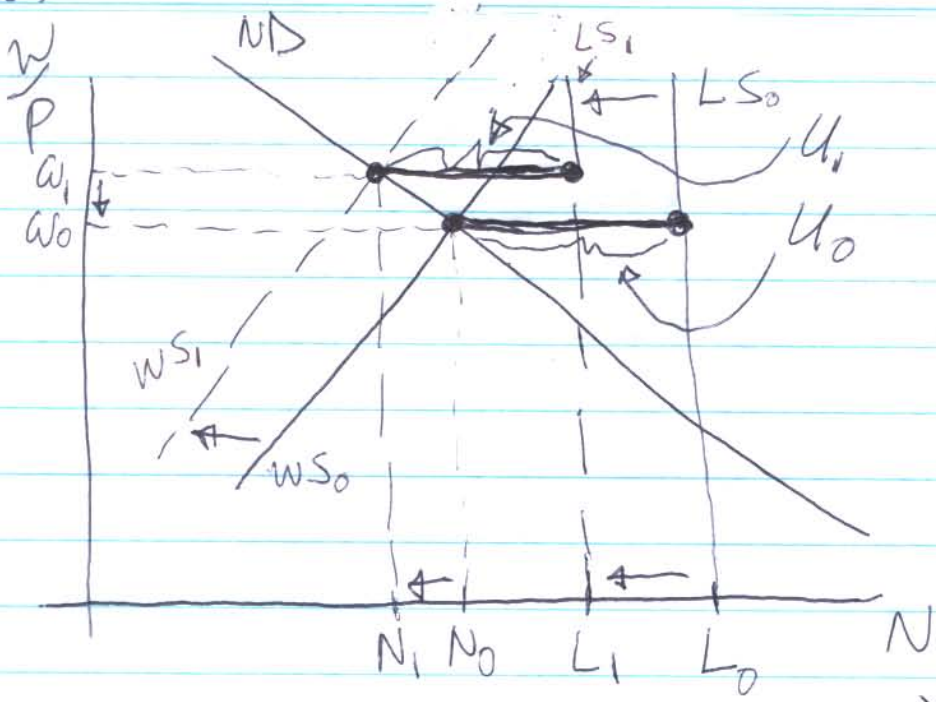
If productivity is permanently lower, then MPN is lowered which shifts ND (labor demand) curve to the LEFT.



a decline in ND from a left shift of the curve pushes w down and N also to a lower level in the KLME. (w goes from w_0 to w_1 and N goes from N_0 to N_1) Since LS doesn't shift labor supply doesn't change from L and thus lower employment means higher unemployment (U goes from U_0 to U_1) The lower level of N causes a reduction in Y_{FE} (full employment output declines).

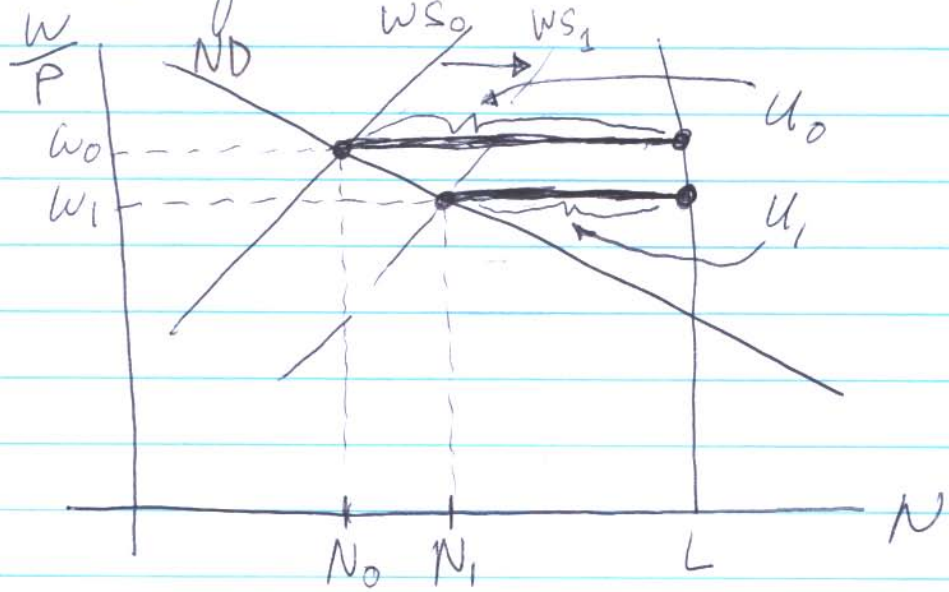
[NOTE: I'm using the linear WS curve to simplify the analysis of the solutions for this + the other two questions.]

When the labor force participation rate decreases, the labor supply curve shifts to the left. Whenever labor supply shifts that causes the wage setting curve in the same direction and by the same amount.



The left shift in LS reduces (from L_0 to L_1) the labor supply. The left shift in WS curve causes the real wage to rise (from W_0 to W_1) and employment to fall (from N_0 to N_1) since L falls by more than N falls, unemployment drops (from U_0 to U_1). The decline in N causes Y_{FE} to fall (full employment output drops).

When the government implements less generous unemployment benefits, workers' wage bargaining position is ~~[illegible]~~ worsened and that shifts the WS Curve DOWN.



The DOWN (or RIGHT) shift in WS Curve causes the real wage to fall (w goes from w_0 to w_1) and employment to rise (from N_0 to N_1). Since labor supply doesn't change, unemployment declines (from U_0 to U_1). The rise in employment causes full employment output to rise.