

Modelling the labor markets and spare capacity in macroeconomics: theory and policy applications

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This course is designed to introduce participants to the theory and analytical tools to develop models with unemployment and spare capacity to study their influence on aggregate fluctuations and economic policies. The course will focus on the search and matching theory in labor and goods markets and the role that search frictions play for the effect of monetary and fiscal policies. Applications will include practical sessions in MATLAB.

Topics covered

- The Diamond-Mortensen-Pissarides model of the labor market.
- Exogenous and endogenous separations in labor market models.
- Search in the goods markets with applications to fiscal and monetary policy
- Search and supply-chain-disturbances.
- The effect of labor market institutions with applications to monetary policy.

Examination

The examination will comprise a term paper (for FU students) on a research question related to the topic of the course, based on the replication of existing work with some novel extensions or interpretations of results. PhD students will additionally need to write a short research proposal not exceeding 4,000 words on a topic of their choice broadly related to the course.

Essential readings

Book

Pissarides, C., 2000. "Equilibrium Unemployment Theory, 2nd Edition," MIT Press Books, The MIT Press.

Articles

Ghassibe, M. and Zanetti, F. 2022. "State dependence of fiscal multipliers: the source of fluctuations matters," *Journal of Monetary Economics*, Elsevier, vol. 132(C), pages 1-23.

Michaillat, P. and Saez, E. 2015. "Aggregate Demand, Idle Time, and Unemployment," *The Quarterly Journal of Economics*, Oxford University Press, vol. 130(2), pages 507-569.

Thomas, C. and Zanetti, F., 2009. "Labor market reform and price stability: An application to the Euro Area," *Journal of Monetary Economics*, Elsevier, vol. 56(6), pages 885-899.

Zanetti, F., 2011. "Labor market institutions and aggregate fluctuations in a search and matching model," *European Economic Review*, Elsevier, vol. 55(5), pages 644-658.