

DISCUSSION OF “UNDERSTANDING THE GREAT RECESSION” BY CHRISTIANO, EICHENBAUM, AND TRABANT

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GROWTH OF THE NEW KEYNESIAN TOWER

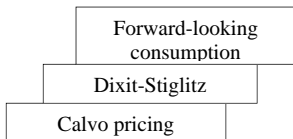
Calvo pricing

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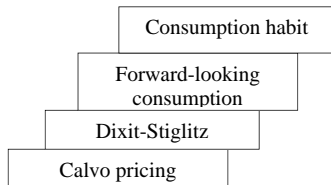
Dixit-Stiglitz

Calvo pricing

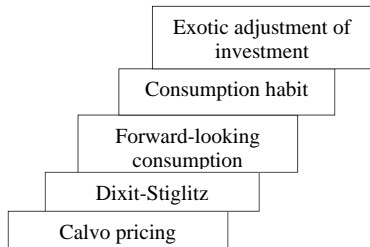
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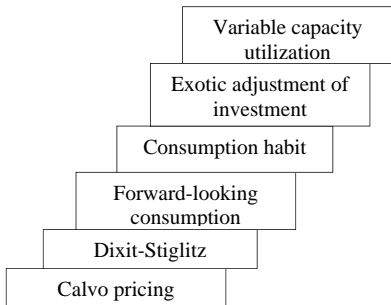
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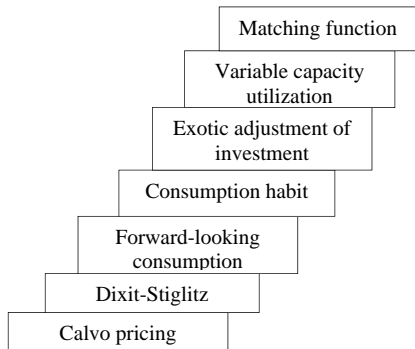
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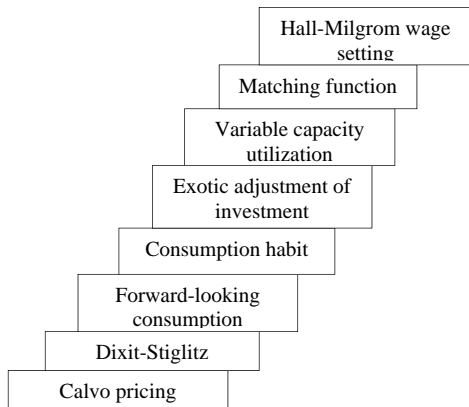
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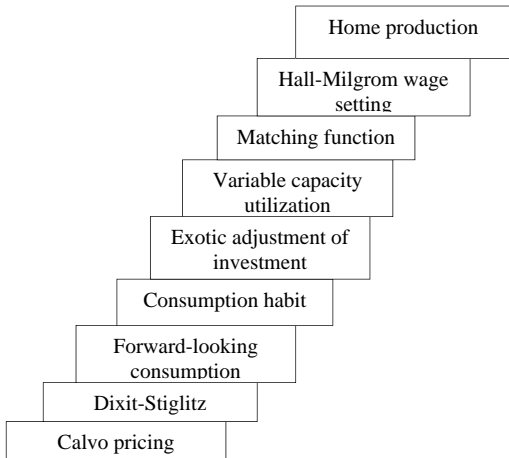
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FRISCH ANALYSIS OF A SINGLE WORKER'S LABOR SUPPLY

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ψ is the Frisch elasticity of labor supply

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$$Lv'(h) = Lw\lambda \Rightarrow \text{hours same as individual}$$

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HOMOGENEOUS HOUSEHOLDS

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Otherwise, $L = 0$

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Envelope condition: $d\gamma^*/d(w\lambda) = h^* > 0$, so $L' > 0$

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LINEAR $v(h)$, AS IN CHRISTIANO *et al.*

Household makes its chosen workers work maximal hours:

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But lack of variation in hours per worker is wildly inaccurate—cyclical movements in hours per week account for almost half of total variation in labor input

.

INDEX OF WEEKLY HOURS OF WORK



CYCLICAL VARIATIONS IN PARTICIPATION

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w : Good times mean lower wages if a force other than productivity expands output and employment; in that case, participation L falls in booms and rises in recessions

Recessions resulting from declines in productivity may depress participation

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Households allocate L of their members to employment but only ϕL hold jobs; the remainder are unemployed.

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$$\max_{c,h,L} \log c - Lv(h) - \lambda c + \phi L \lambda w h - \phi L \gamma$$

First-order conditions are the same as for $\phi = 1$, but output and employment will be lower, so $w\lambda$ is higher and participation is higher if there is an exogenous decrease in ϕ .

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Three effects: (1) *direct productivity effect*, procyclical, (2) *labor-demand effect*, countercyclical, and (3) *well-being effect*, countercyclical

HETEROGENEITY EXPLAINS PROCYCLICAL PARTICIPATION

<i>Comparative advantage in job market</i>	<i>Economic condition</i>	<i>Working</i>	<i>Intense job search</i>	<i>Sporadic job search</i>	<i>Working or searching</i>	<i>Reported participation rate</i>
Strong	Boom	0.90	0.04	0.00	0.94	0.94
	Slump	0.88	0.08	0.00	0.96	0.96
Moderate	Boom	0.40	0.00	0.04	0.44	0.40
	Slump	0.34	0.00	0.12	0.46	0.34
Average	Boom	0.65	0.02	0.02	0.69	0.67
	Slump	0.61	0.04	0.06	0.71	0.65

DATA

