Goals for this session

- Build more intuition on two-sided model

- Work on shifts in two-sided model

How well do you know the model?

- Can you identify which variables are 'rates' and which are 'aggregates'

- What's the difference between $em(\frac{1}{j}, 1)$ and $em(1, j)$?

- Why does Q increase with j? (Our top graph)

Problems

1. Suppose that the government imposes a minimum wage: W_{min} that is greater than the bargaining wage. Use the DMP model diagrams from the text to determine the effects on the:

   - unemployment rate
   - vacancy rate
   - labor force
   - aggregate output
   - labor market tightness

   Label your axes. Explain what is going on in the model economy.

2. How does this example compare to the high wage equilibrium in the Keynesian DMP (aka Farmer-Guo) model?

3. How does the impact of a minimum wage law on output and employment compare in the model with search frictions compare to the result you would get in an efficient market?

4. One proposal supported by many economists is to provide subsidies to firms that pay a minimum wage. How would this affect your answers to the previous question? Explain.