

unemployment

Demand deficient vs Real Wage
unemployment

Equilibrium+disequilibrium unemployment

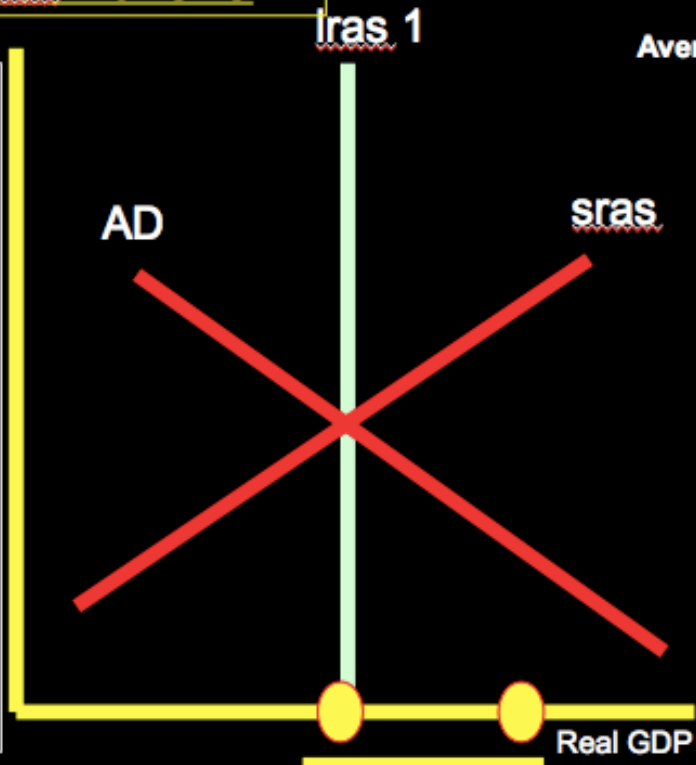
Equilibrium or Disequilibrium

AS/AD for final G+S

Price Level

Economy is in equilibrium at y_{fe} but even though there is natural unemployment the labour market is in equilibrium. Diagram is for final goods and services.

NB AS+AD for final goods and services behaves the same way as AS+AD for labour.

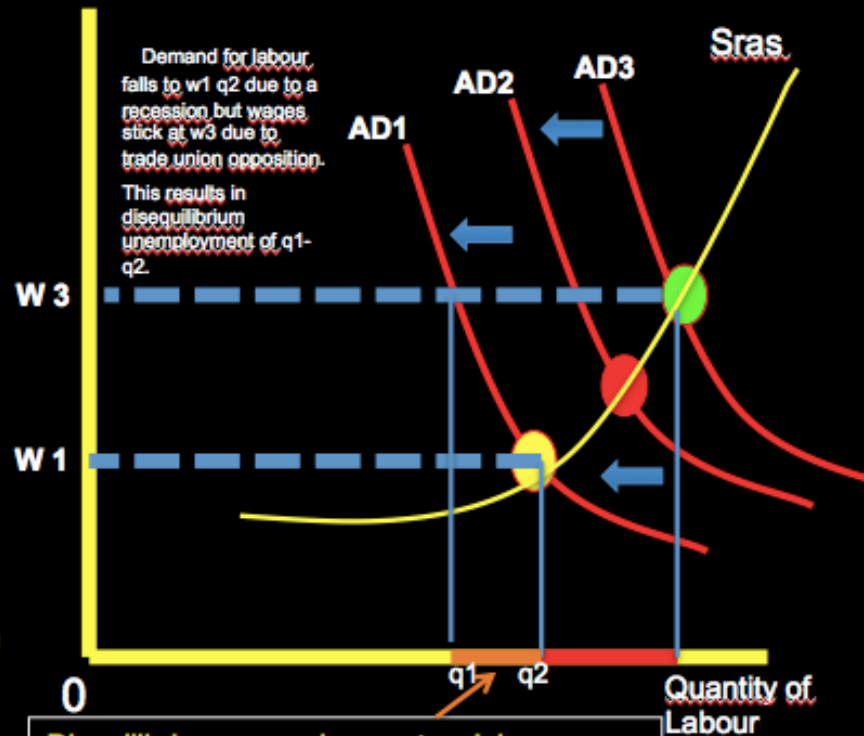


AS/AD for Labour

Average Wage

Demand for labour falls to w_1 q_2 due to a recession but wages stick at w_3 due to trade union opposition.

This results in disequilibrium unemployment of $q_1 - q_2$.



Disequilibrium unemployment as labour market is not in equilibrium as wages do not fall to w_1 due to trade union opposition.

Real Wage

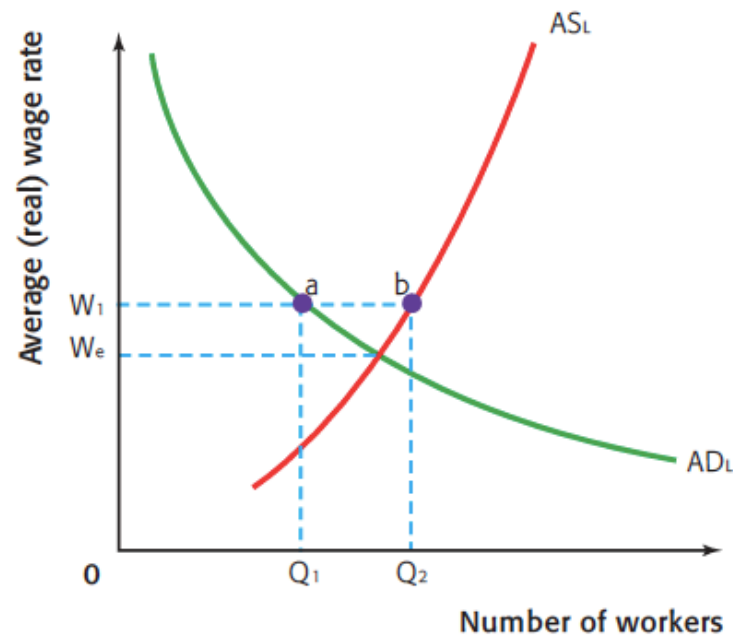


Figure 17.3 Real-wage unemployment

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Disequilibrium unemployment occurs between an and b as wages do not adjust downwards

Demand deficient: final goods market

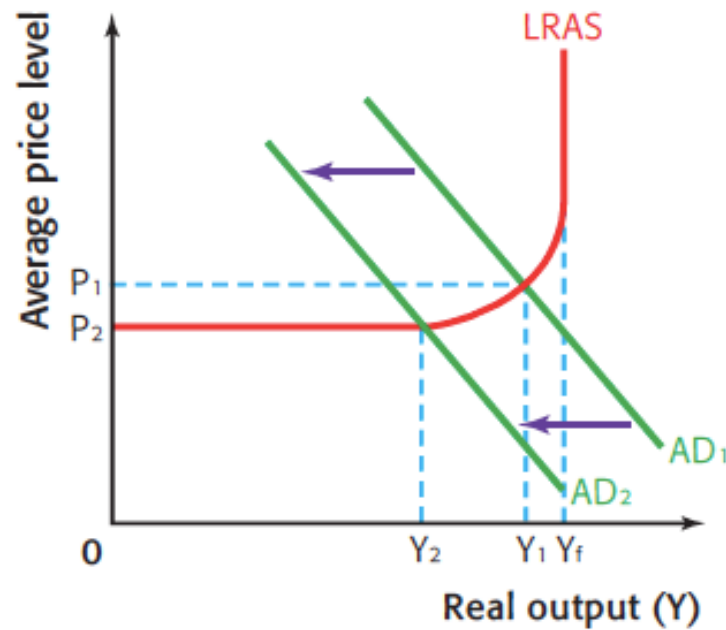
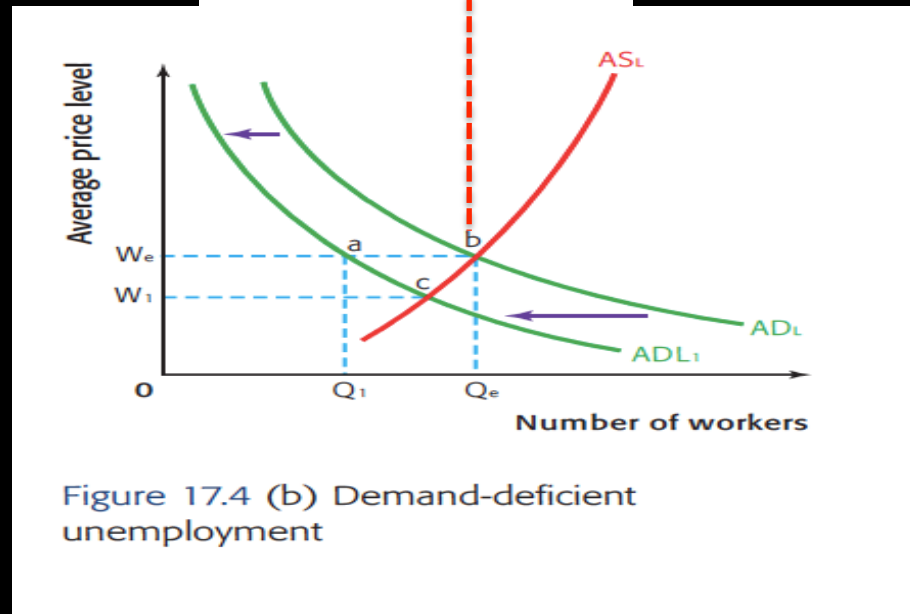
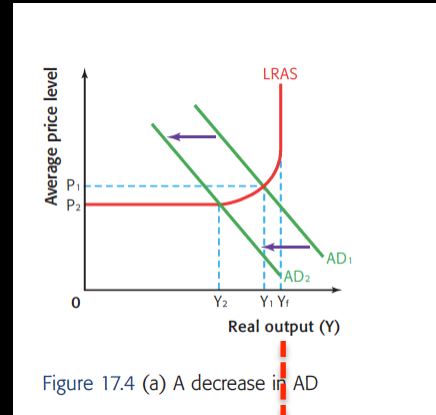


Figure 17.4 (a) A decrease in AD

Demand Deficient: labour market



Disequilibrium unemployment occurs between an and b as wages do not adjust downwards