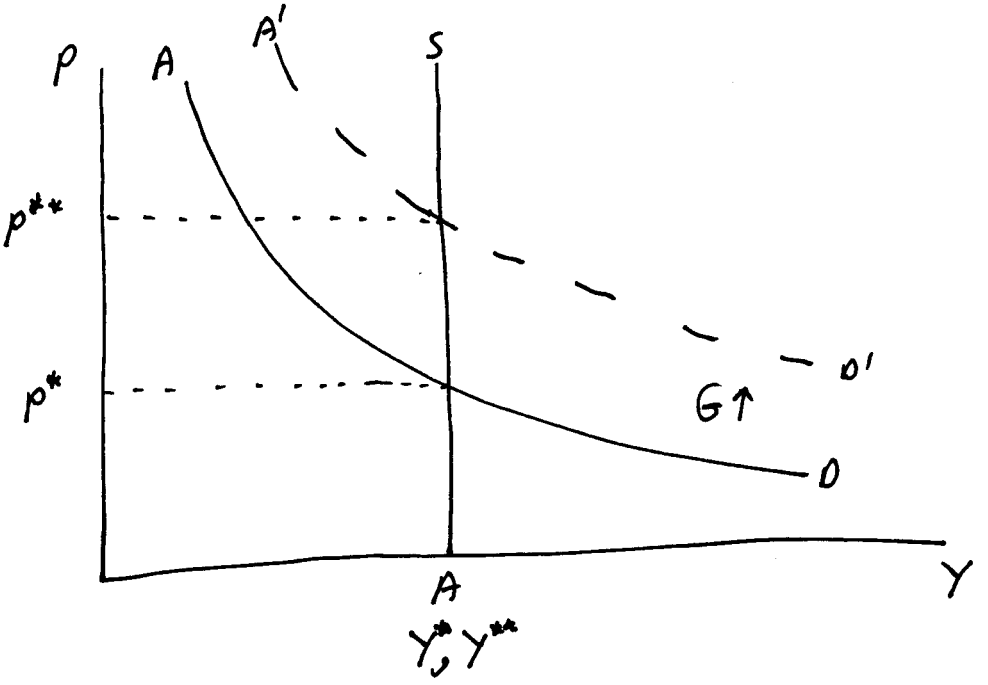
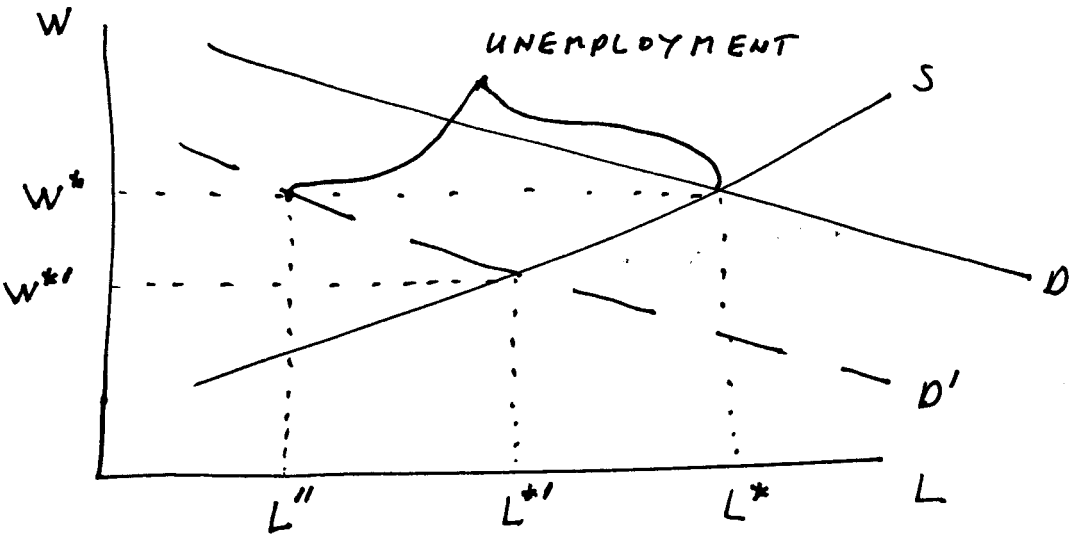


G↑: r↑, I↓ = G↑, C unchanged, $\frac{M^d}{P}$↓, M^d unchanged

A limit as to how small $\frac{M^d}{P}$ can get. Will the public buy the government bonds?



Stichy wages:

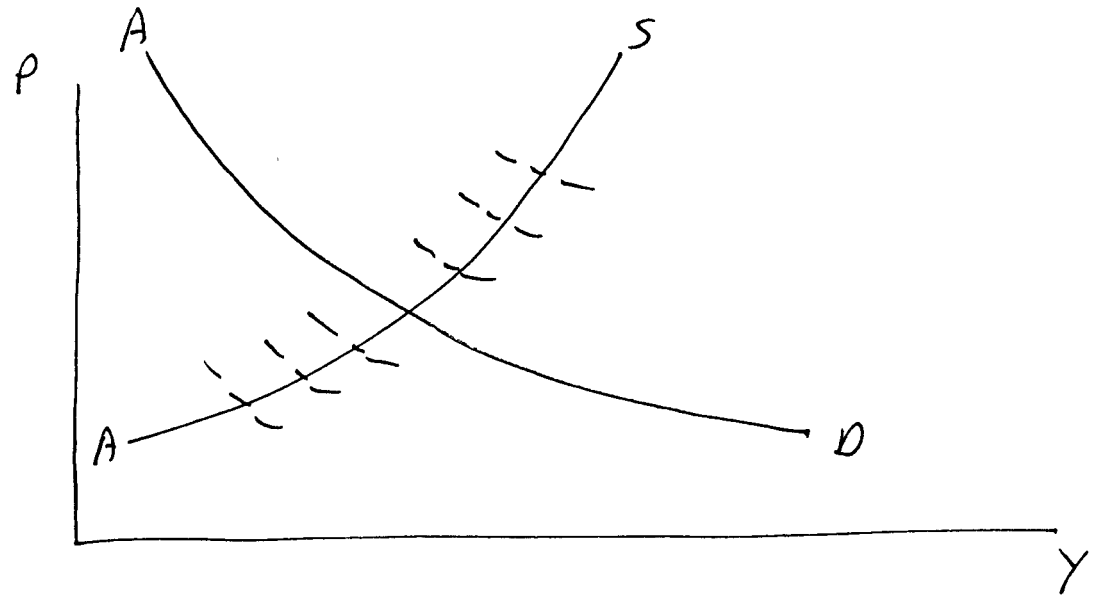
Implicit (social) contracts

Relative wage

Explicit contracts

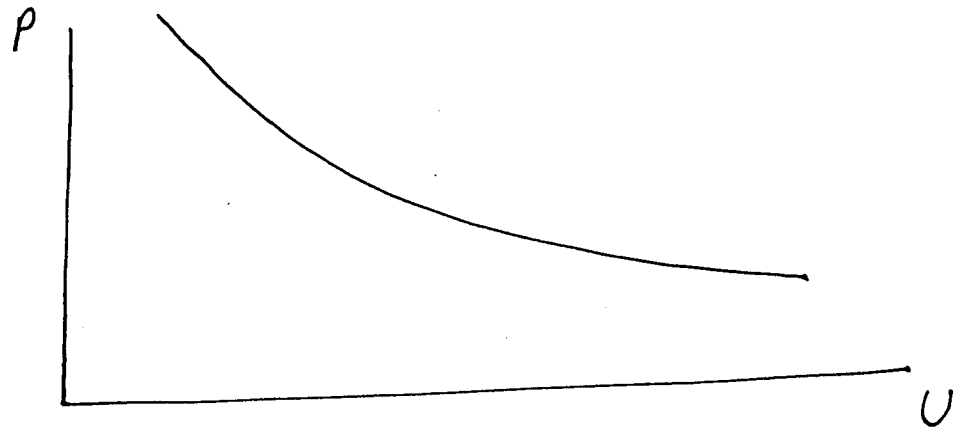
Imperfect information

Minimum wage laws



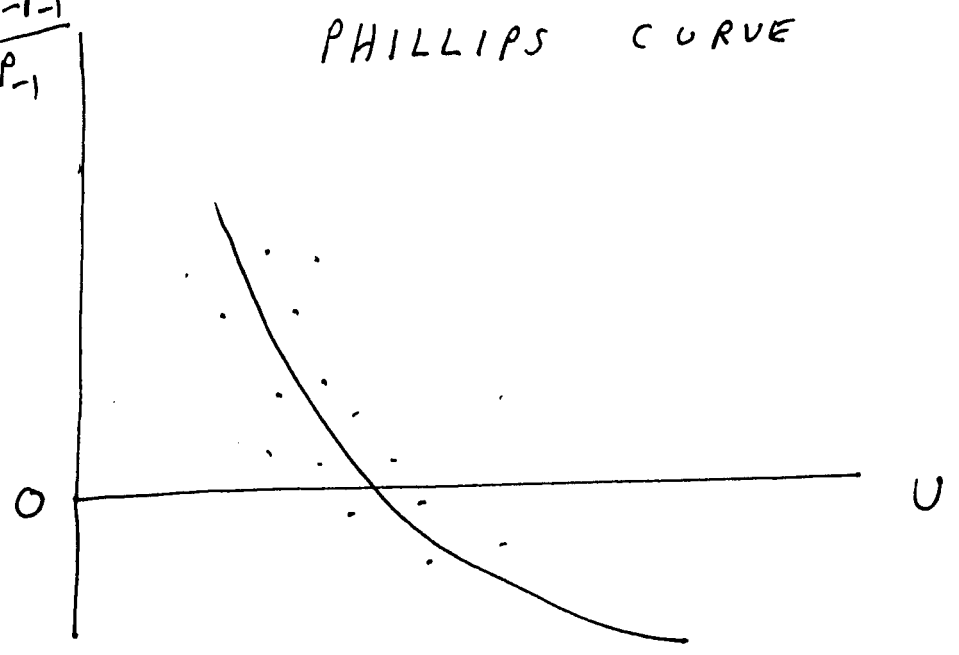
$Y\uparrow \Rightarrow U\downarrow$

$Y\downarrow \Rightarrow U\uparrow$



$\dot{P} = \frac{P - P_{-1}}{P_{-1}}$

PHILLIPS CURVE



NAIRU

$$\log P_t - \log P_{t-1} \approx \frac{P_t - P_{t-1}}{P_{t-1}} \equiv \dot{P}_t \equiv \pi_t$$

$$p_t = \log P_t$$

(1) $$Y_t = Y_t^* + \alpha(p_t - p_t^e) \quad , \alpha > 0$$

so

$$p_t - p_{t-1} = p_t^e - p_{t-1} + \frac{1}{\alpha}(Y_t - Y_t^*)$$

or

$$\pi_t = \pi_t^e - \beta(U_t - U_t^*) \quad , \beta > 0$$

(2) If $\pi_t^e = \pi_{t-1}$

$$\pi_t = \pi_{t-1} - \beta(U_t - U_t^*)$$

or

$$\pi_t - \pi_{t-1} = -\beta(U_t - U_t^*)$$