

$$UR = \frac{L - E}{L}$$

$$E = J - \text{MOON}$$

$$Y \downarrow \Rightarrow J \downarrow \text{ \& } H \downarrow \text{ (but } Y \downarrow > J \cdot H \downarrow \text{)}$$

$$J \downarrow \Rightarrow \text{MOON} \downarrow \text{ (so } E \downarrow < J \downarrow \text{)}$$

$$J \downarrow \Rightarrow L \downarrow \text{ (so } UR \uparrow \text{ less than otherwise)}$$

$$Y \downarrow \Rightarrow UR \uparrow \text{ "Okun's Law"}$$

3% 1 pct pt.

Size of Multiplier

1. Automatic stabilizers
 2. Interest rate
 3. Price level
 4. Excess capital & labor
 5. Inventories
 6. Temporary vs. Permanent
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Stock market

-1000 billion Aug. 1987 - Oct. 1987

$$\frac{1}{20} (-1000) = -50$$

$$\frac{-50}{4000} = -1.25\%$$

$$-50 (1.4) = -70$$

$$\frac{-70}{4000} = -1.75\%$$

(1) $C = bY$ | $C = b(Y - T)$, $T = tY - TR$, α
 life cycle, r , Wealth (utility maximization)

(2) $I = er$ | Y^e , excess capital, r vs. W

(3) $Y = C + I + G$ | $V = V_1 + Y - X$
 $G = T$

(4) $\frac{M^d}{P} = gY + hr$

(5) $M^s = M$ | How does the Fed change M ? \uparrow accounts

(6) $M^d = M^s$ | Why does r change?

(7) $P = f_1(\overset{+}{Y}, \overset{+}{PM})$ | shape of AS curve

(8) $r = f_2(\overset{+}{Y}, \overset{+}{P})$ | Fed behavior, M is endogenous

Supply of labor: L or H^* | utility maximization, H^* may be greater than H
 \uparrow unemployment

Demand for labor: J | Y^e , excess labor, r vs. W
 $: H$

$E = J - M_{OON}$

$UR = \frac{L - E}{L}$

Bond prices, stock prices, term structure of interest rates

Cyclical movements in various variables

Relationships between various variables