Old exam questions for revision AECO803 Spring 2008

1) What are the important features of how job destruction and job creation vary over the business cycle? Briefly describe the Mortensen-Pissarides framework that has been used to model job destruction and job creation. What features of the model have been shown to be inconsistent with the behavior of the US labor market over the business cycle? Briefly discuss 2 variants of the Mortensen-Pissarides model that have been proposed to address some of the inconsistencies.

2) “Micro (search) models of money are irrelevant for the conduct of monetary policy”, discuss.

3) How can an economy comprising homogenous workers and homogenous firms exhibit wage dispersion? To what extent can this model help to explain the measured wage dispersion in the real world?

4) Describe the basic Pissarides matching model of the labor market. Is it possible that the introduction of a binding minimum wage could improve utilitarian welfare in the model? Explain your answer.