

# Divine Beveridge-Wicksell Framework

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## Assumptions

- neo-Wicksellian model (Woodford 2003)

↳ model in which <sup>nominal</sup> interest rate can stabilize the economy

↳ dynamic model of state (Michaillat & Saez 2022)

↳ model in which monetary policy is nonneutral & conducted through nominal interest rate

- divine coincidence (Blanchard & Galí 2007)

↳ inflation will be at its target level when unemployment rate is efficient

↳ 2 objectives of Fed (price stability + full employment) are aligned, no tradeoff

a) inflation is fixed / exogenous

b) price dynamics are such that inflation reaches target when  $u = u^*$

↳ Michaillat & Saez (2022)  
↳ Blanchard & Galí (2010)

- Beveridge curve → there is unemployment in model
- efficient unemployment rate can be measured by sufficient statistics
  - ↳  $u^* = \sqrt{u \cdot v}$

⇒ Divine Wichall-Beveridge framework

→ Franchimal Business-Cycle model: simplest DWB model.

→ will develop formula for any DWB model.