

Aggregate Supply Curve in the Dynamic Model

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AS curve = Beveridge curve + production function

↑
 tightness → employment

↑
 employment → output
 (labor force)

employment rate

Beveridge curve $u = \frac{\lambda}{\lambda + f(\theta)} \Rightarrow l = (1-u) \times h$

$l = \frac{f(\theta)}{\lambda + f(\theta)} \times h$

↳ unemployment rate when flows (E-U, U-E) are balanced

↳ we assume that flows are always balanced (Hall, Pissarides)

Production function

$y = a \times l$

AS curve Gives output when unemployment/vacancies are on the Beveridge curve (balanced flows)

$y = y^s(\theta) = \frac{f(\theta)}{\lambda + f(\theta)} \cdot ah$

Properties . $y^s(0) = 0$ b/c $f(0) = 0$

$y^s(\theta) = ah$ b/c $f(\theta) \rightarrow \infty$
 $[f(\theta) = r \theta^{1+\alpha}]$

$y^s(\theta)$ is increasing in θ b/c
 $f(\theta)$ is \uparrow in θ & $\alpha \rightarrow \frac{\alpha}{1+\alpha}$ is \uparrow in α

