Quiz on Frictional and Rationing Unemployment

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Question 1

If the production function is $Y = a \times N$ in the matching model (where a is productivity and N is the number of producers), what is shape of the labor demand curve in the usual (employment, tightness) diagram?

A) Downward sloping

B) Upward sloping

C) Vertical

D) Horizontal

E) None of the above

Question 2

In the matching model described in the previous question, is there any rationing unemployment?

A) Yes, if wages are rigid.

B) Yes, if wages are obtained by Nash bargaining.

C) Yes, because the unemployment rate is always positive.

D) No, because job rationing requires a downward-sloping labor demand in the usual (employment, tightness) diagram.

E) No, because rationing unemployment cannot exist in matching models.

Question 3

In a matching model with rigid wage and diminishing marginal returns to labor, what happens to frictional and rationing unemployment over the business cycle?

A) In bad times, rationing unemployment is high but frictional unemployment is low, and total unemployment is high.

B) In bad times, rationing unemployment is high but frictional unemployment is low, so total unemployment is low.

C) In bad times, both rationing unemployment and frictional unemployment are high, so total unemployment is high.

D) All unemployment is frictional at any point over the business cycle.

E) All unemployment is rationing at any point over the business cycle.

F) In bad times, frictional unemployment is high but rationing unemployment is low, and total unemployment is high.

G) None of the above.

Question 4

In the model of the previous question, which policy would effectively reduce unemployment in bad times?

A) Building a placement agency to help firms with recruiting.

B) Building a placement agency to monitor jobseekers' search.

C) Subsidizing wages to stimulate labor demand.

D) Increasing the minimum wage to support low-wage workers.

E) None of these policies would be particularly effective.