

Why Are Prices Not Restricted to a Narrow Price Band?

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Hall (2005) : - w/ rigid wages, there are significant fluctuations in unemployment in response to productivity shocks (resolution to Shimer (2005) puzzle)

legitimate bilateral → - rigid wages are theoretically do not create any inefficiencies

remain within a fairly narrow band

$$\underline{w} < w < \bar{w}$$

→ wage band exists b/c of linearity of the model. productivity

$$z = MRS < w < MPL = a$$

↑ value of home production / leisure

$$z < w < a$$

- Equivalent in macro model of slack :

$0 = MRS <$
 ↑ sellers must remain in shop to sell

$p < MU$
 ↑ CES utility function,
 $MU(c) \rightarrow +\infty$ when $c \rightarrow 0$
 [Inada]

When $c \rightarrow 0$, the price band becomes
infinitely wide.

$$0 < p < +\infty$$

↳ This is true in any concave model
(satisfies Imada conditions).