

The Real Indeterminacy of the Unemployment Rate in a Dynamic General Equilibrium Model

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Abstract

We construct a dynamic general equilibrium model with goods and labor markets, where money is a medium of exchange. We show that the structure of goods markets has a decisive impact on equilibria. If the goods market structure is a centralized auction, there is a continuum of stationary equilibria, which gives rise to the real indeterminacy of the unemployment rate. On the other hand, if the goods market structure is Walrasian, the equilibrium is unique. In addition, the welfare under the former market structure is not necessarily higher than that under the latter.

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