Involuntary unemployment fluctuation with matching friction in effective demand analysis

Kouki Sugawara *

Nagoya Gakuin University, 1-25 Atsuta-Nishimachi, Atsuta Nagoya Aichi 456-8612, Japan

Abstract

This paper presents the search-matching model with the effective demand analysis by Ono (1992, 2001) to analyze both the frictional unemployment and the unemployment in shortage of involuntary unemployment simultaneously. We show that a rise of unemployment insurance has two impacts on unemployment rate under stagnation. The one is a rise of frictional unemployment rate in an equilibrium because an increase in bargaining power of workers decreases the vacancy. The other is a fall of involuntary unemployment rate because labor demand is adjusted by the deflation gap under stagnation attributed to shortage of effective demand.

JEL classification: E24; E41; J64

Keywords: unemployment insurance; frictional unemployment; effective demand

*Tel.: +81-052-678-4078.
E-mail address: sugawara@ngu.ac.jp