

Involuntary unemployment fluctuation with matching friction in effective demand analysis

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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**

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