Pricing on the Labor and Product Markets

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Product market pricing:

- Bilateral monopoly surplus created when firm & customer match

- Need to assume a price norm: $p = p^n(x, \theta)$

- Bargained price → flexible so x does not respond to AD/AS shocks

→ no fluctuations in slack over business cycle.

- Rigid price → moves in direction of bargained price but by lesser amount

→ comparative statics are same as fixed price

- For simplicity: assume fixed price $p > 0$.

Labor market pricing:

- Bilateral monopoly: surplus created when firm & job applicant meet

- Need to assume a wage norm to determine nominal wage: $w = w^n(x, \theta)$

- Bargained wage → tightness θ does not respond to labor demand & supply shocks.

- Rigid wage → wage moves in direction of bargained wage but by a lesser quantity

→ same comparative statics as w/ fixed wage

- Assume a fixed nominal wage $w > 0$.