

TABLE 3.2
THE CLIP JOINTS PRODUCTION FUNCTION

N	Y	MPN1	MRPN	P	W	w*
0	0			30	240	8
1	11	11	330	30	240	8
2	20	9	270	30	240	8
3	27	7	210	30	240	8
4	32	5	150	30	240	8
5	35	3	90	30	240	8
6	36	1	30	30	240	8

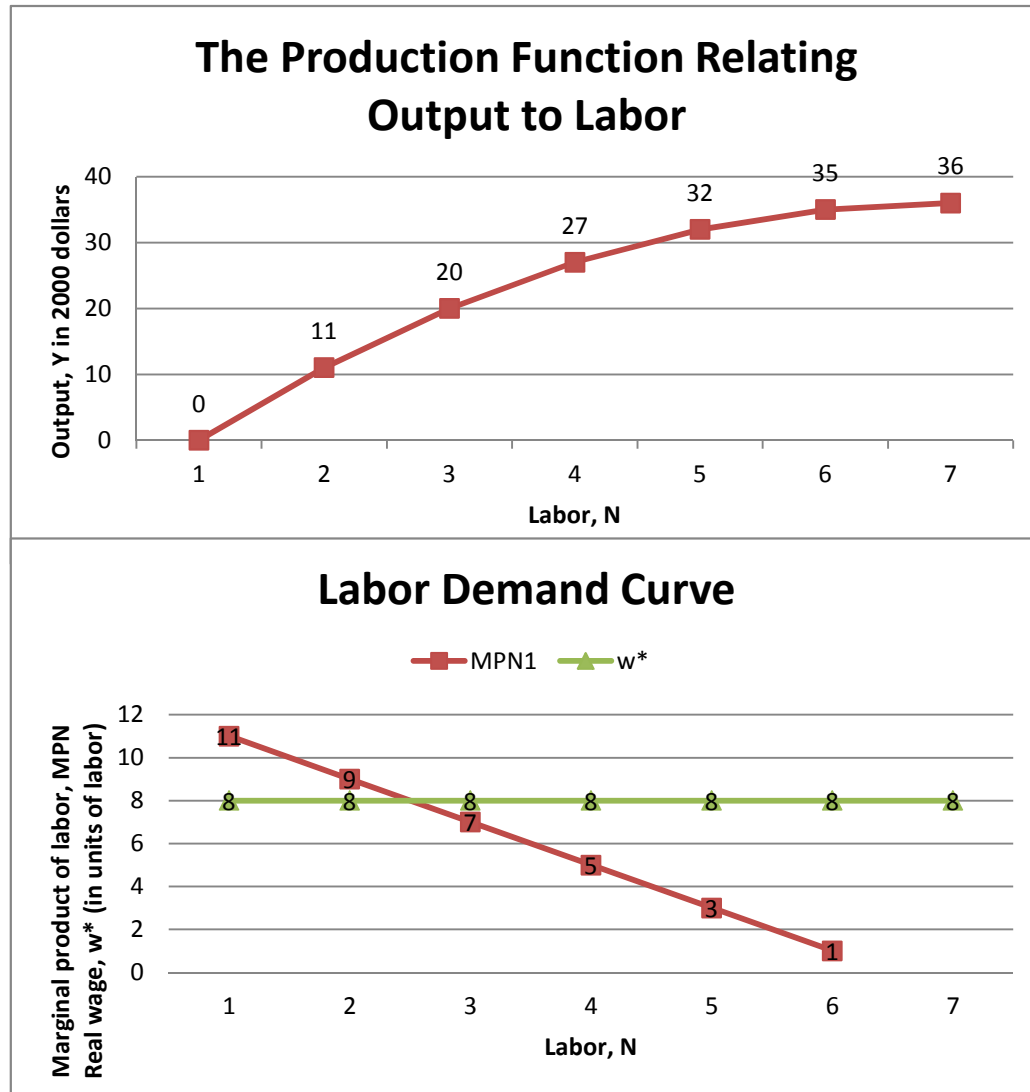
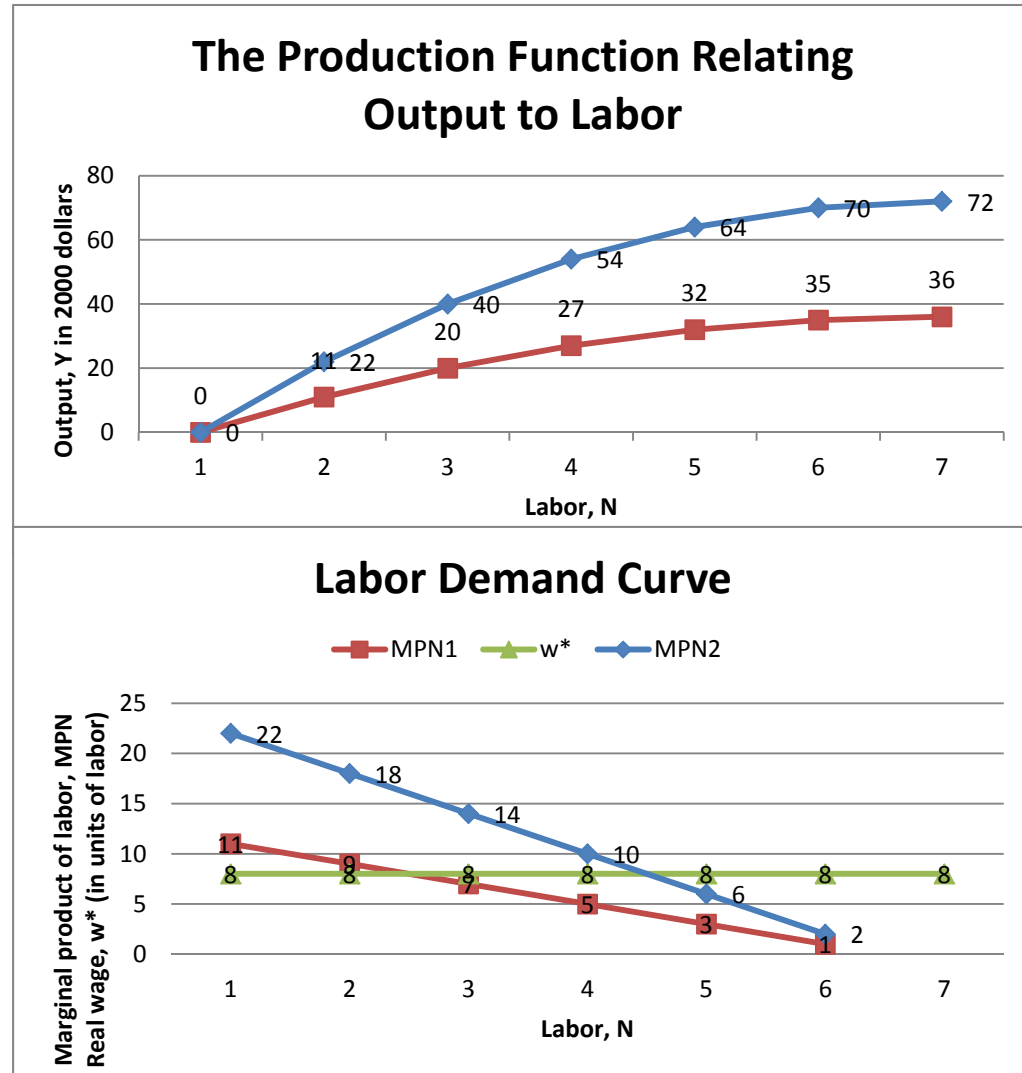


TABLE 3.2

THE CLIP JOINTS PRODUCTION FUNCTION
AFTER A BENEFICIAL PRODUCTIVITY SHOCK

N	Y	MPN2	MRPN	P	W	w*
0	0			30	240	8
1	22	22	660	30	240	8
2	40	18	540	30	240	8
3	54	14	420	30	240	8
4	64	10	300	30	240	8
5	70	6	180	30	240	8
6	72	2	60	30	240	8



$$Y=AF(K,N)$$

- Y real output produced in a given period of time;
- A a number measuring overall productivity;
- K the capital stock, or quantity of capital use in the period;
- N the number of workers employed in the period;
- F a function relating output Y to capital K and labor N.

SUMMARY 2

Comparing the Benefits and Costs of Changing
the Amounts of Labor

to max profit the firm should	Increase employment if, for an additional worker	Decrease employment if, for an additional worker
Real	$MPN > w^*$	$MPN < w^*$
Nominal	$P \times MPN > W$	$P \times MPN < W$

MPN= marginal product of labor

P= price of output

W= nominal wage

w^* = real wage

SUMMARY 3

FACTORS THAT SHIFT THE AGGREGATE LABOR DEMAND CURVE

AN INCREASE IN	CAUSES THE LABOR DEMAND CURVE TO SHIFT	REASON
PRODUCTIVITY	RIGHT	Beneficial supply shock increases MPN, and shifts MPN curve up and to the right
CAPITAL STOCK	RIGHT	Higher capital stock increases MPN and shifts MPN curve up and to the right

SUMMARY 4

FACTORS THAT SHIFT THE AGGREGATE LABOR SUPPLY CURVE

AN INCREASE IN	CAUSES THE LABOR DEMAND CURVE TO SHIFT	REASON
WEALTH	LEFT	Increase in wealth increases amount of, leisure workers can afford.
EXPECTED FUTURE REAL WAGE	LEFT	Increase in expected future real wage, increases amount of leisure workers can afford.
WORKING-AGE POPULATION	RIGHT	Increased number of potential workers, increases amount of labor supplied.
PARTICIPATION RATE	RIGHT	Increased number of people wanting, to work increases amount of labor supplied.