

Short Run

- a period of time when certain factors of production may be fixed and wages and/or prices may be fixed.

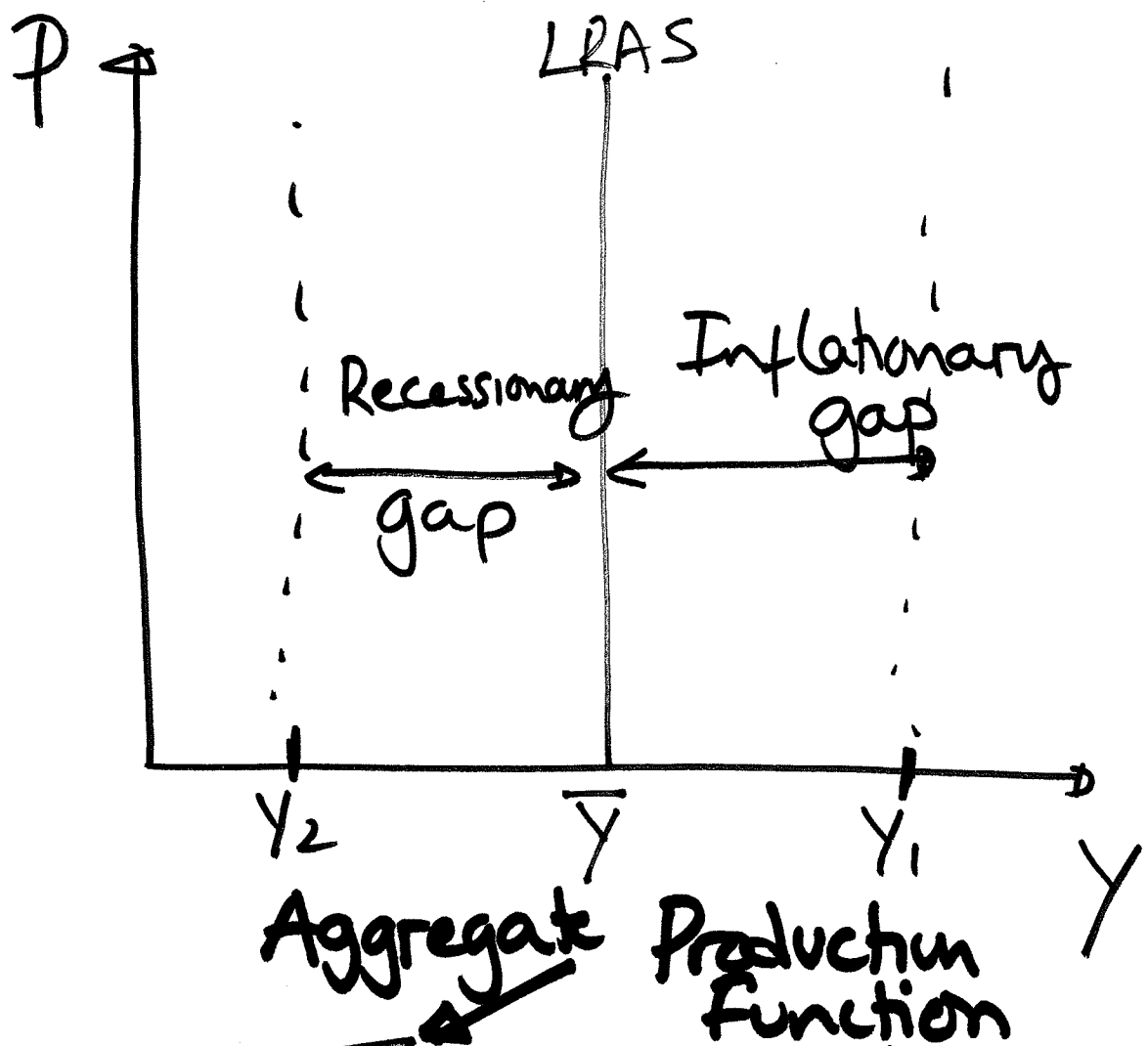
- \bar{K}, \bar{Z} ; L can vary.

- \bar{W} may be fixed and/or prices, P

Long Run

- a period of time when all factors of production can adjust and wages and prices are flexible.

- K, L, Z, W, P can all vary/adjust



$$Y = F(K, L, Z)$$

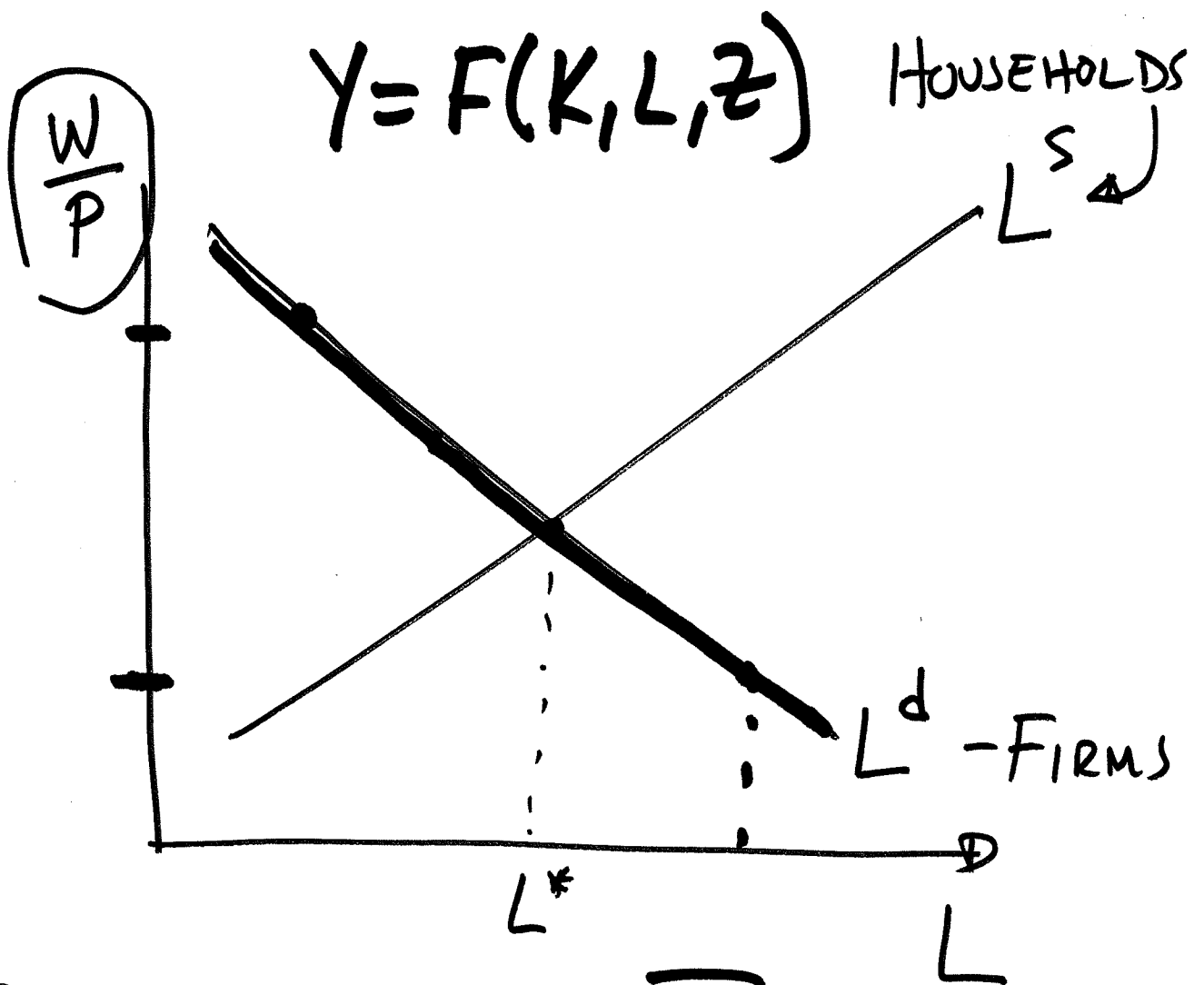
$$Z=1 \quad = Z \cdot K^{\frac{1}{2}} L^{\frac{1}{2}} \quad (\text{Cobb-Douglas})$$

$$K=49 \rightarrow 64 \quad = 1 \times \sqrt{49} \sqrt{100} = 70$$

$$L=100 \quad = Z \min\{K, L\} \quad (\text{Leontieff})$$

$$= 1 \times \min\{49, 100\} = 49$$

$$64 \quad 64.$$

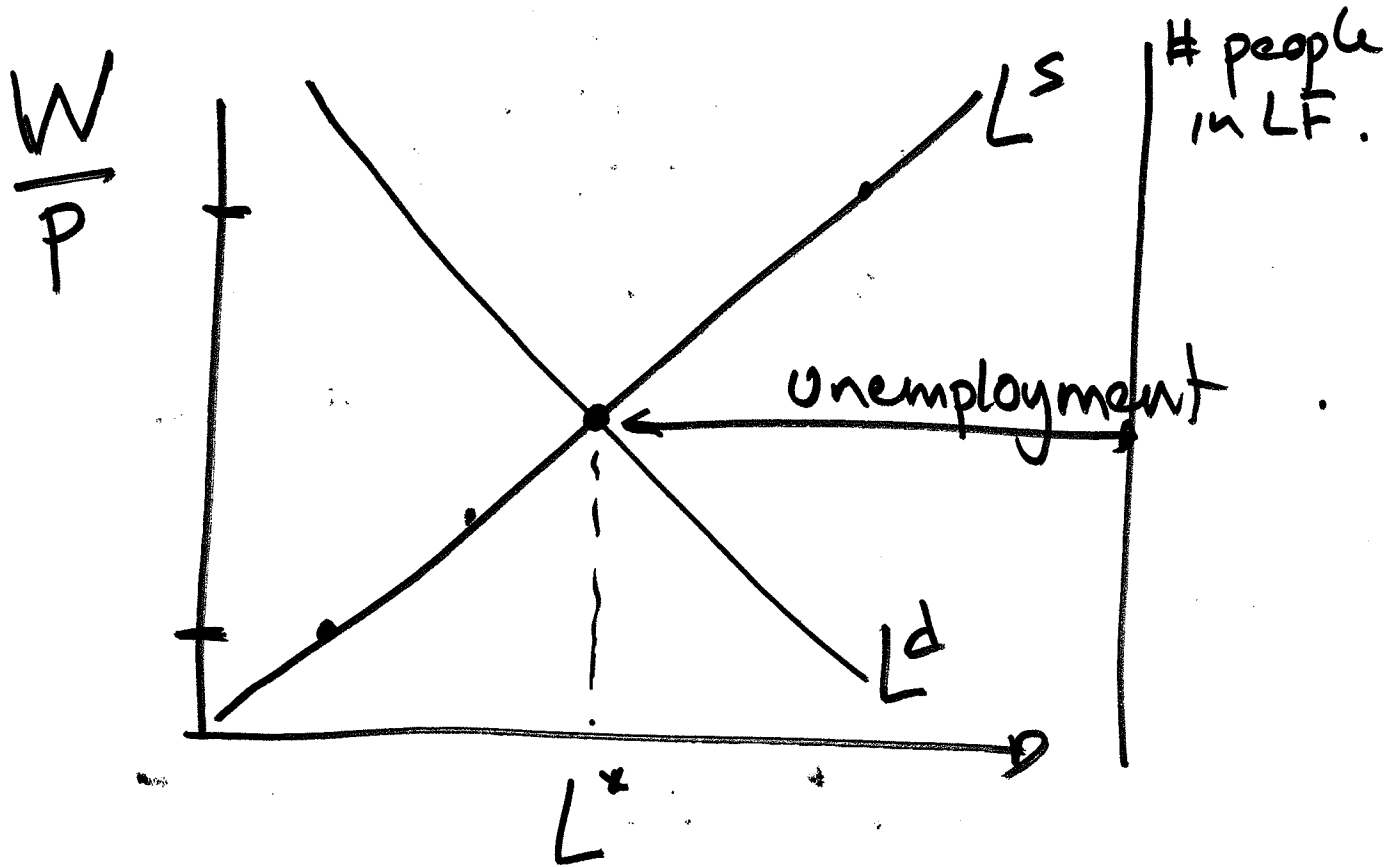


FIRM: $PY - W \boxed{L}$

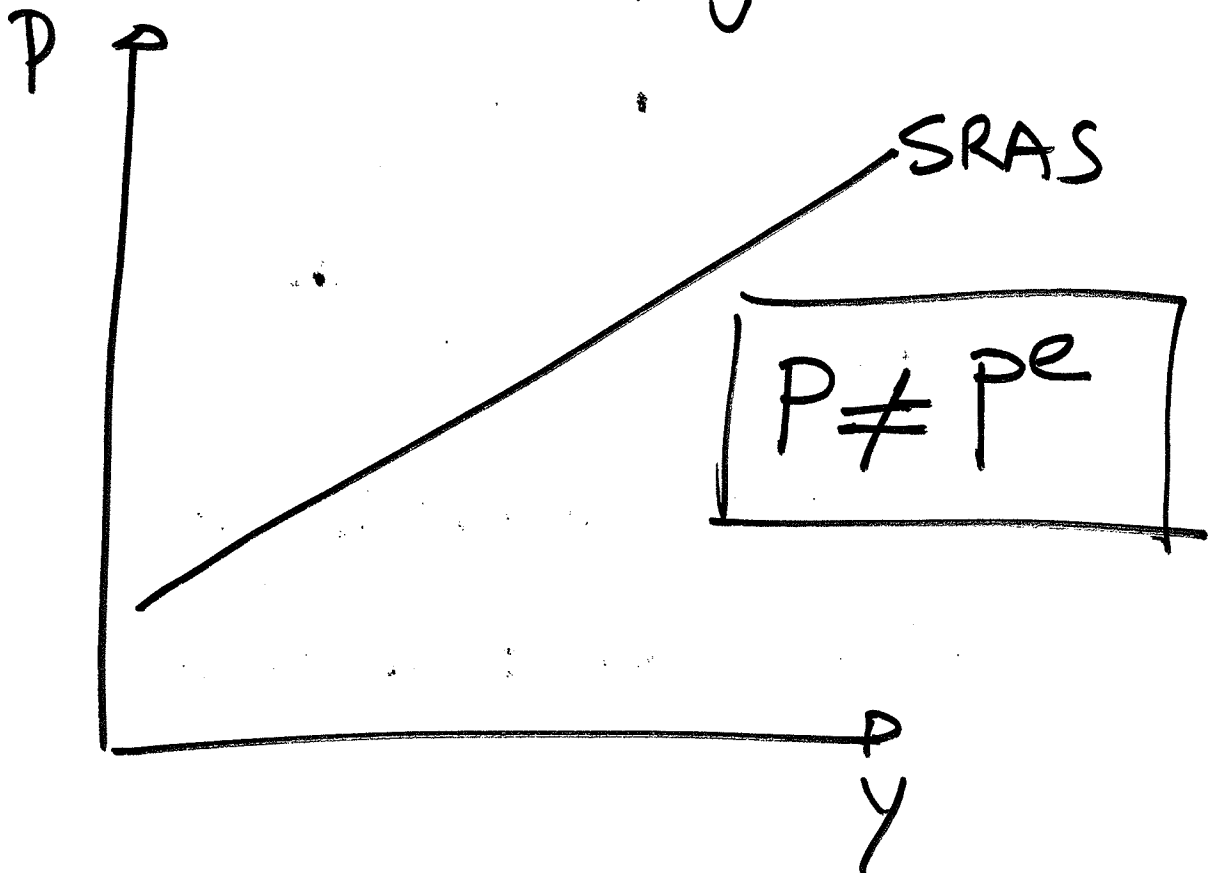
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Real Wage: $\frac{W}{P} \leftarrow \sim$ marginal benefit

$W \leftarrow$ marginal cost



(Full Employment)



Sticky Wage Model

① Worker gets to pick/set

$\overline{W} = \omega \cdot P^e$, but before they observe P .

Nominal Wage

$$\frac{\$1000}{\$100} \frac{\overline{W}}{P^e} = \omega = 10$$

↑
anticipated/target
real wage

② Firms, take \overline{W} , and get to decide how many workers to hire, L^d , but only once they have seen P .

③ Workers agree to supply L^d !
