

Define a job-seekers reservation wage and its relevance to the expectations-augme...

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Jobseekers Reservation Wage and Phillips Curve by + Jobseekers Reservation Wage and Phillips Curve

Unemployed individuals seeking jobs usually have wage expectations relative to the existing wage rate in the labor market and play a significant role in determining whether they will accept a job offer. Jobseekers reservation wage is therefore defined as the minimum wage below which an individual looking for employment will decline an offer for a job. Hence, if the reservation wage for a job seeker is greater than what is offered in the labor market, it is likely very difficult for such an unemployed person to find employment. Hence, the job search models indicate that optimal strategies for job seekers involves continued hunt for jobs as long as incoming bids for jobs include wages that fall below the reservation wage, (Cahuc et al., 2014, p. 262).

The relevance of reservation wage and expectations for the augmented Phillips curve was recognized as the expectations-augmented Phillips curve developed in late stages of 1960s and early 1970s, (Woodbury and Davidson, 2002, p. 233). According to the explanation given by Phillips regarding unemployment, it states that when the demand for labor is high, eligible but unemployed workers expect employers to offer high wage rates quite faster. On the other hand, it appears like job-seekers are reluctant to offer their valuable services below the wage rates prevailing in the labor market. Any subsequent analysis of expectations-augmented predicts that the co-existence of elevated inflation and towering unemployment usually occur with excessive growth in the money supply (Gottschalk, 2005, p. 13). That is, $\Delta MS/MS > \Delta MD/MD$, which is related to demand-pull inflation.

Similarly, the expectations-augmented Phillips curve shifts upwards in each phase as expectations for inflation changes. On the other hand, the Phillips curve moves downwards in each phase as expectations for inflation change.

Bibliography

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