



FAU/IAB-Seminar
Macroeconomics and Labor Markets
und
IAB-Colloquium

Mittwoch, 29. Juni 2011 (11:00 - 12:30 Uhr)

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Envy, Guilt and the Inflation-
Unemployment Tradeoff

Abstract

In this paper, we incorporate fairness considerations by households into an otherwise standard New Keynesian dynamic equilibrium model with staggered wage contracts and positive inflation. Households are inequity averse with respect to their real income towards the household's reference group. Agents who do reset their nominal wage have relatively low income and experience envy. They compensate by wishing to supply more labor, i.e. their reservation wage falls. Agents who do not reset their nominal wages experience a rise in real income and thus have guilt. They compensate by wishing to supply less labor. Since the envy effect is stronger, however, the first effect dominates. The greater the rate of money growth (i.e. the greater the rate of long-run inflation), the greater the dispersion of wages and thus the stronger the envy effect (relative to the guilt effect). Consequently, we show that there is a significant trade-off between inflation and macroeconomic activity such as aggregate employment and output. Moreover, this trade-off in combination with an inefficient zero-inflation steady state calls for optimal monetary to target a positive inflation rate close to - but below - two percent.

Der Vortrag findet im Institut für Arbeitsmarkt- und Berufsforschung,
Weddingenstraße 20-22 in Nürnberg, Raum 126 statt.