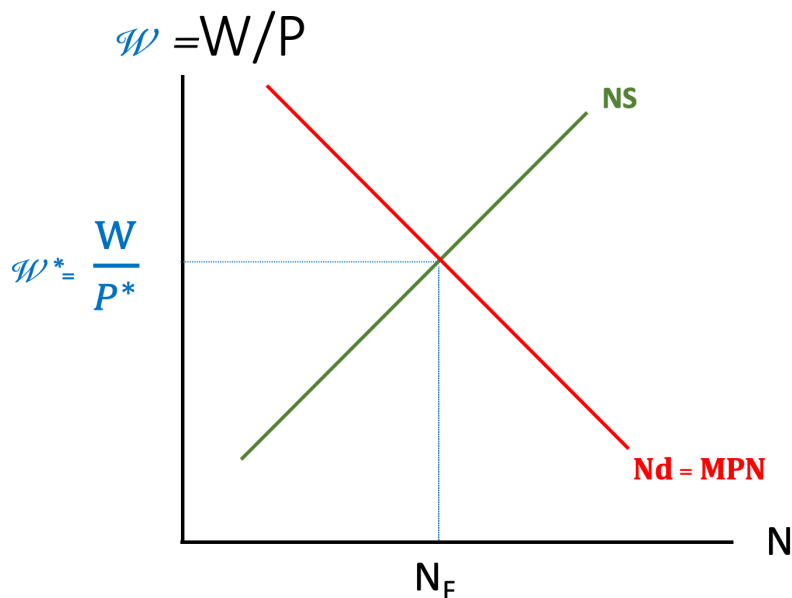


### 3.2.3 Labor Market Equilibrium

- In the long-run, “fully flexible adjustment in labor market”, the equilibrium employment is the level so called “full employment”.



- At  $w^* = \frac{W^*}{P^*}$ , employment =  $N_F$ .
- $N_F$  is full-employment equilibrium.

- In the short-run, employment can be different from “full-employment” equilibrium.
  - People make their economic decision based on their expectation on “price level”.
  - If they can predict the “price” level correctly. Employment will be at “full-employment” level.

