LABOR ECONOMICS • Question 1: Answers should recognize that this result does not hold when there are search frictions in the labour market. The proof should follow a simple matching model in which the worker bargaining power parameter is set at zero, and the firm appropriates the whole rent from job matches. In this set-up equilibrium unemployment is given by \( u = \delta \theta q(\theta) \). (1). Consequently no firm will enter the market and we have full unemployment. In other words, the equilibrium conditions for an interior solution cannot be satisfied when \( \beta = 1 \). • Question 2: The reservation wage of a worker facing a non-degenerate wage offer distribution is given by \( \mu \int Z^\infty (w - w^*) dF(w) w = z + \delta w^* \). (4). Where \( \lambda \) is the rate at which workers contact firms.