

# Real Business Cycles with Involuntary Unemployment

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## Abstract

We develop and analyze a real business cycle model in which both goods and labor markets are characterized by imperfect competition. In equilibrium, unemployment emerges as the result of the market power exercised by *insiders* at the firm level. We show that a calibrated version of the model is capable of generating both a procyclical labor supply and a countercyclical unemployment rate, in a way qualitatively consistent with the U.S. data.

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