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Title: Labor market dynamics when (un)employment is a social norm

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Highlights

- I create a new Keynesian model with search and matching frictions
- I use an unemployment norm that captures the true cost of unemployment
- The psychological cost of unemployment is large and important for model dynamics
- I also introduce rigidities in the labor market which add persistence
- The model matches impulse responses from a VAR on US data and solves various puzzles
- The psychological cost of unemployment can be important for policymakers interested in the unemployment - inflation trade-off.

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