

## 2.2. The Dynamic Labor Demand Model

### The Stochastic Setup

**Rmk** If  $\alpha_1 = 0$  (crs), the FOC reduces to

$$\alpha_0 - W_t - bNH_t + \beta bE_t NH_{t+1} = 0$$

where  $NH_t = \Delta L_t$  are the net hirings.  $\Delta L_t > 0$  ( $< 0$ )  $\rightarrow NH_t > 0$  ( $< 0$ ). See the Homework.

Here, we solve the model in the more general case where  $\alpha_1 > 0$