

Answer on Question #46582, Economics, Macroeconomics

The labor market determines the equilibrium or full employment level of labor input to the aggregate production function. Therefore, we define full employment output, Y^* , in the following way:

$$Y^* = A_0 F(K_0, N^*)$$

where N^* denotes the full employment labor amount determined by equilibrium in the labor market.

Note: The textbook by Abel and Bernanke uses "bars" on top of equilibrium values. Since I can't figure out how to put bars on top of letters in HTML, I will denote an equilibrium value with a superscript "*" and the color red.

Full employment output is depicted in the graph below

