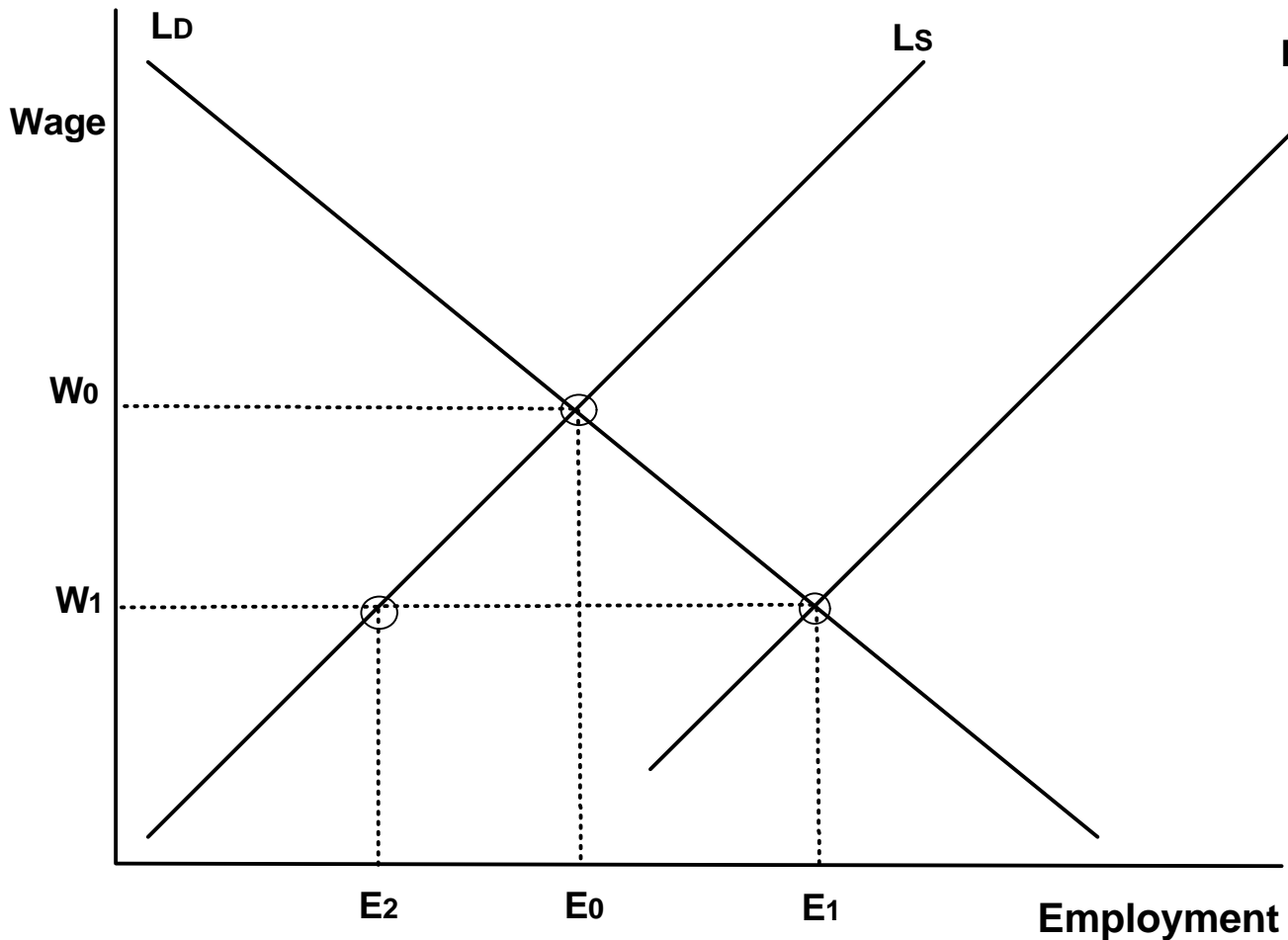


Figure 2. Wage and Displacement Effects of a Labor Supply Shock



Notes: L_D is labor demand curve. L_S is labor supply curve before shock. L_S^1 is labor supply curve after shock. Wage and employment equilibrium before shock is (W_0, E_0) . Due to shock, wages decline to W_1 . Total employment increases to E_1 , but employment of persons originally in labor force declines to E_2 . Employment of those added to labor force by shock is $E_1 - E_2$. Displacement proportion (the loss of employment by the original labor force, as proportion of employment of new labor force participants) is $D = (E_0 - E_2) / (E_1 - E_2)$.