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# The Fair Wage-Effort Hypothesis and Unemployment

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## Abstract

This paper introduces the fair wage-effort hypothesis and explores its implications. This hypothesis is motivated by equity theory in social

psychology and social exchange theory in sociology. According to the fair wage-effort hypothesis, workers proportionately withdraw effort as their actual wage falls short of their fair wage. Such behavior causes unemployment and is also consistent with observed cross-section wage differentials and unemployment patterns.

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