

## **Abstract**

**This paper analyses the effects of introducing typical Keynesian features, namely rule-of-thumb consumers and consumption habits, into a standard labour market search model. It is a well-known fact that labour market matching with Nash-wage bargaining improves the ability of the standard real business cycle model to replicate some of the cyclical properties featuring the labour market. However, when habits and rule-of-thumb consumers are taken into account, the labour market search model gains extra power to reproduce some of the stylised facts characterising the US labour market, as well as other business cycle facts concerning aggregate consumption and investment behaviour.**

**Key words:** general equilibrium, labour market search, habits, rule-of-thumb consumers

**JEL classification:** E24, E32, E62