

Applications of Search & Matching Models

The following are some questions for you to consider as you go through the required reading material which should help to guide the discussion.

- How is the natural rate of unemployment defined in the context of the standard search & matching model?
- How has the U.S. Beveridge curve shifted after the 2008 financial crisis? How can we explain the fact that this shift does not appear to be uniform across the unemployment-vacancies space?
- Explain how Daly and co-authors calculate an empirical proxy for the degree of mismatch in the economy.
- What factors do Daly and co-authors suggest could account for the increase in the natural rate of unemployment following the financial crisis?
- Why is it fruitful to compare the evolution of unemployment after the 2008 Financial Crisis in France and Spain?
- How can the standard search & matching model accommodate differences in workers' geographic mobility?
- What are the extensions that Bentolila and co-authors add to the search & matching model we discussed in the lectures?
- Provide an economic interpretation for the Bellman equations (1)-(5) describing the behaviour of the firm.
- Provide an economic interpretation for the Bellman equations (6)-(10) describing the behaviour of the worker.
- Why is the surplus of a confirmed permanent job higher than one for a new permanent position?
- How does an increase in firing costs affect the creation and destruction of permanent positions? Labour market tightness?
- Discuss the institutional features of French and Spanish labour markets accommodated in the calibration exercise.
- How is the Financial Crisis simulated in the model?
- How would Spain's unemployment have increased after the crisis if it had had the same level of employment protection as France?
- Why is the speed of adjustment of unemployment so fast?

References

- Daly, M. C., B. Hobijn, A. Sahin and R. G. Valleta (2012) "A Search and Matching Approach to Labor Markets: Did the Natural Rate of Unemployment Rise?" *Journal of Economic Perspectives* 26: 3-26.
- Bentolila, S., P. Cahuc, J. J. Dolado and T. Le Barbanchon (2012) "Two-Tier Labour Markets in the Great Recession: France versus Spain," *Economic Journal* 122: F155-F187.