Firm's Production Function

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Firms employ 2 types of workers:

- $l - m$ recruiters $\rightarrow$ fill vacant jobs

$\hat{z}(\theta) \times n$

$\rightarrow$ do not participate in production

$\rightarrow$ HR department

- m producers $\rightarrow$ participate in production

Production function:

$$k = a \times m^{\alpha}$$

- $a > 0$: technology of firm
- $\alpha \in (0, 1)$: diminishing marginal returns to labor

is required to obtain non degenerate labor demand

(Michaillat 2012)

- $m > 0$: # producers (not # employees)

- $k > 0$: firm's capacity $\rightarrow$ # services

that could be sold w/ enough customers

$\rightarrow$ in practice firms will sell less then

capacity b/c of matching function

- what is sold is $f(x) \cdot k \leq k$

selling proba