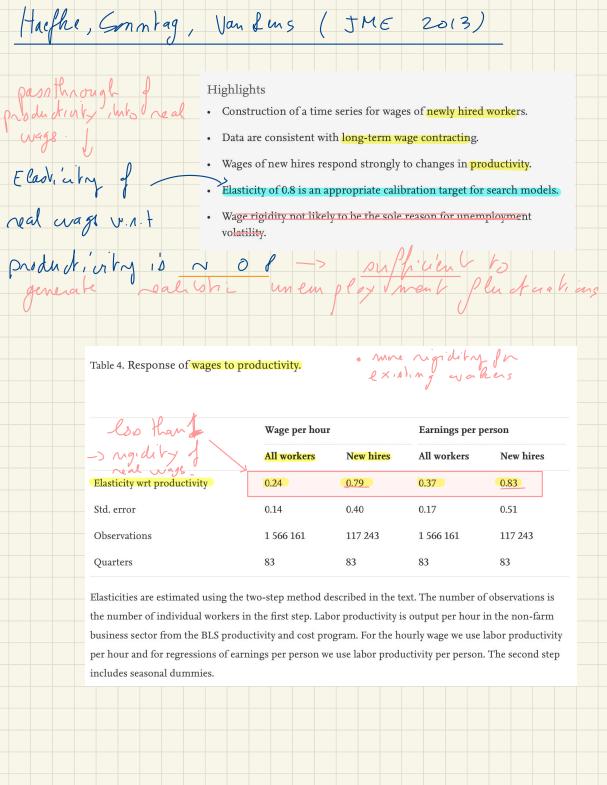
Prevalence of Wage Rigidity

Pascal Michaillat https://www.pascalmichaillat.org/t5.html

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4.2. Fluctuations in the net present value of wages

The most important observation for the purpose of this paper is that wage setting only matters insofar as it affects the response of the permanent wage \overline{w}_t to changes in permanent productivity \overline{y}_t . The fact that the actual wage w_t does not appear in the equilibrium conditions for the job finding rate p_t illustrates that the path at which wages are paid is irrelevant for job creation. This observation, which was made earlier in Shimer (2004), is crucial to the argument in this paper, as well as in the closely related studies by Pissarides (2009) and Kudlyak (2009).

How large is the response of the present value of wages in new jobs to changes in productivity that is implied by our estimates? Since estimated wages in ongoing wage contracts are close to a random walk, the elasticity of the present value of wages is close to the elasticity of the wages of newly hired workers, 24 i.e. $d \log \overline{w}_t/d \log \overline{y}_t = \textbf{0.8}$. We propose to use this estimate as a calibration target in future research on models with long-term employment relationships.

