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If we could observe it, we wouldn't need a structural model to begin with

Worst case: must solve full backwards recursion or fixed point problem once

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Examples: tuition subsidies, home-owner subsidies, G.W. Bush tax cuts (2001, 2003)

# Labor Market Frictions and Moving Costs of the Employed and Unemployed

**Tyler Ransom**

ABSTRACT

*Search frictions and switching costs may grant monopsony power to incumbent employers by reducing workers' outside options. This paper examines the role of labor market frictions and moving costs in explaining worker flows across U.S. labor markets. Using data on non-college-educated workers from the Survey of Income and Program Participation (SIPP), I estimate a dynamic model of job search and location choice. I find that moving costs are substantial and that labor market frictions primarily inhibit the employed. Reducing these frictions would result in a higher wage elasticity of labor supply to the firm and could reduce employer monopsony power.*

*Tyler Ransom is an assistant professor of economics at the University of Oklahoma and a research affiliate at IZA (ransom@ou.edu).* *The author thanks Peter Arcidiacono, Patrick Bayer, V. Joseph Hotz, and Arnaud Maurel for their helpful comments and encouragement throughout the duration of this project. Martha Stinson and Gary Benedetto provided expert knowledge and invaluable assistance with the SIPP data and methodology, and Christopher Timmins generously provided locational price data. The author also thanks participants at the Princeton Conference on Monopsony in the Labor Market, and in particular Evan Starr and the discussant Ted To. This paper also benefited from conversations with Jared Ashworth, Esteban Aucejo, Patrick Coate, Christos Makridis, Kyle Mangum, Ekaterina Jardim, Michael Ransom, Seth Sanders, Juan Carlos Suárez Serrato, and various other conference and seminar participants. All errors are those of the author. A previous version of this paper was circulated under the title "The Effect of Business Cycle Fluctuations on Migration Decisions" and was the first chapter of the author's Ph.D. dissertation. The author gratefully acknowledges funding from National Science Foundation grant SES-11-31897 and the University of Oklahoma College of Arts and Sciences. Any opinions and conclusions expressed herein are those of the author and do not necessarily represent the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed. No IRB approval was required to conduct this research. The primary data source of this paper is a confidential data set housed at the U.S. Census Bureau. The data can be obtained by submitting a research proposal to the Census Bureau through a Federal Statistical Research Data Center Administrator (https://www.census.gov/about/adrm/fsrdc/contact.html). Code and publicly available auxiliary data that can be used to replicate the results of this paper are located at https://doi.org/10.5281/zenodo.4495571. The author commits to providing guidance about obtaining the confidential data and using it to replicate the results.*
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Counterfactual simulations:

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Longer counterfactuals require full value function solution (computationally infeasible)