ECON 736 Presentation
Assortative Matching with Large Firms

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November 26, 2021

Roadmap of Talk

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Title

- To simulate the model we will use the following production function:

$$f(x, y, \theta) = \left(\omega_A x^{(1-\sigma_A)/\sigma_A} + (1-\omega_A)\, y^{(1-\sigma_A)/\sigma_A}\right)^{\sigma_A/(1-\sigma_A)} \theta^{\omega_B} \tag{1}$$

- Computing condition **??** for this production function we get:

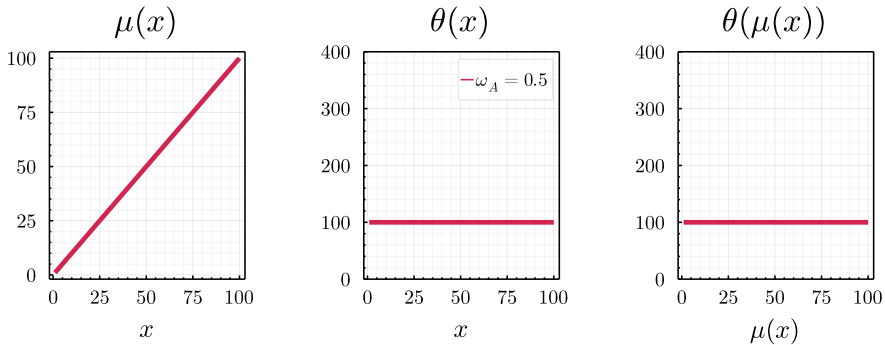
$$-\frac{(1-\sigma_A)\,(1-\omega_A)\,\omega_A x^{\frac{1}{\sigma_A}} y^{\frac{1}{\sigma_A}} \theta^{\omega_B} \left(\omega_A x^{\frac{1}{\sigma_A}-1} + (1-\omega_A)\, y^{\frac{1}{\sigma_A}-1}\right)^{\frac{\sigma_A}{1-\sigma_A}}}{\sigma_A \left(\omega_A \left(y x^{\frac{1}{\sigma_A}} - x y^{\frac{1}{\sigma_A}}\right) + x y^{\frac{1}{\sigma_A}}\right)^2} > 0 \tag{2}$$

- Clearly the condition for **PAM** holds if $\sigma_A < 1$ and we will have **NAM** if $\sigma_A > 1$.

Effect of changing ω_A

- When $\omega_A = 0.5$ workers and firms are equally weighted.

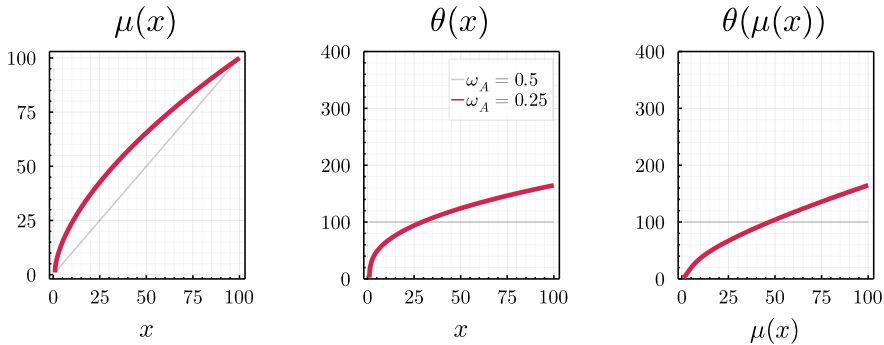
- Fully symmetric model, mathing $\mu(x) = x$, reach constant size



- **Parametrization** $x, y \sim U[0, 1]$, $\omega_B = 0.5$ and $\sigma_A = 0.9$

Effect of changing ω_A

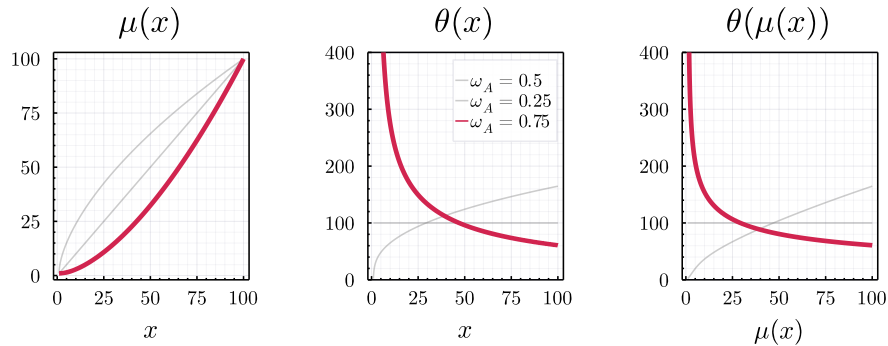
- $\omega_A \in (0.5, 1]$ worker type is more determinant in production.
- The size effect dominates the type effect $\implies$ matching is concave and firm size is increasing.



- **Parametrization** $x, y \sim U[0, 1]$, $\omega_B = 0.5$ and $\sigma_A = 0.9$

Effect of changing ω_A

- $\omega_A \in [0, 0.5)$ firm type is more determinant in production.
- The type effect dominates the size effect $\implies$ matching is convex and firm size is decreasing.



- **Parametrization** $x, y \sim U[0, 1]$, $\omega_B = 0.5$ and $\sigma_A = 0.9$
- ▸ Effect in wages

Roadmap of Talk

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without having to show everything! ▸ Back

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