EQUILIBRIUM IN THE LABOR MARKET WITH SEARCH FRICTIONS PISSARIDE(2011)

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January 2025

HOW DOES THE PAPER RELATE TO THE LECTURE?

So far in Econ 182, we have learned about search frictions and their effect on the Frictional Unemployment rate and to a lesser extent the effects behind such frictions.

In class, my peers have presented research surveying the use of the DMP Model and Matching functions.

This paper employs the Beveridge Curve.

WHAT IS ADDRESSED BY THE PAPER?

Pissarides queries how an economy with search frictions is best served to overcome them and best match workers with firms based on preferences from BOTH parties.

- Difference in amount of Friction on the economy

- Active vs. Passive policies

- Wage stickiness in a market with friction and nash bargaining

HOW IS THE RESEARCH ANSWERED?

Creation of the DMP Model(Diamond Mortensen Pissarides)

1. Pissaride developed a theory of Job Creation and rethought what a job was empirically
2. Found equilibrium ratio of Vacancies to Unemployment: Tightness(θ) which describes job finding rate and unemployment rate
3. Used the DMP model to compare economies
4. Pissaride initially ignored wage and efficiency to analyze job creation/vacancy
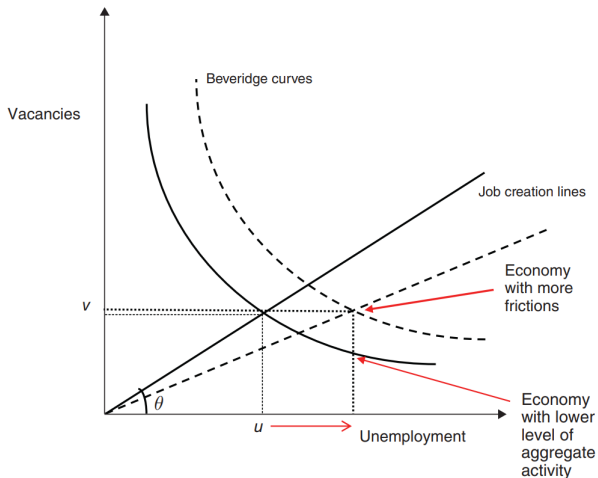
GRAPHICAL ILLUSTRATION

FIGURE 3. COMPARING ECONOMIES

-Visual of DMP model used to compare economies: One with more frictions and passive policies one with fewer frictions and active policies

CONTRIBUTION TO PREVIOUS LITERATURE

1. McCall and McCall 2008 - built on their search model, applied it to wage bargaining and job creation/destruction
2. Phelps and Dale Mortensen 1970 - built upon the idea of unemployment in equilibrium by introducing matching function
3. Peter Diamond 1971 - Built upon search frictions and extended them into labor economics

CONCLUSION

The DMP model is a versatile tool that can analyze the Labor Market based on Unemployment, wage, and job vacancies.

Through the comparison of economies we see that fewer frictions and active policies prevail(theoretically)

Wage stickiness: crucial role in DMP model, explains slow market adjustment

Job Destruction: jobs once created do not easily adapt, these jobs are destroyed based on joint real return of worker and employer

I would like to learn more about the application of the DMP model(21st century)