

UNEMPLOYMENT CYCLES*

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Abstract

The labor market by itself can create cyclical outcomes, even in the absence of exogenous shocks. We show that the search behavior of the employed has profound aggregate implications for the unemployed. Active on-the-job search increases vacancy posting by firms: it changes the number of searchers and in the presence of sorting, it improves the quality of the pool of searchers. More vacancy posting in turn makes costly on-the-job search more attractive, a self-fulfilling belief. The absence of on-the-job search discourages vacancy posting, making costly on-the-job search little attractive. This model of multiple equilibria can account for large fluctuations in vacancies, unemployment, and job-to-job transitions; it provides a rationale for the Jobless Recovery through a novel channel of the employed crowding out the unemployed; and it gives rise to a shift in the Beveridge Curve (the unemployment-vacancy locus). Each of these phenomena are matched in the data.

Keywords. On-the-job search. Jobless Recovery. Unemployment Cycles. Sorting. Mismatch. Job-to-job flows.

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