Discussion of "A Job Ladder Model with Stochastic Employment Opportunities" by Jake Bradley & Axel Gottfries

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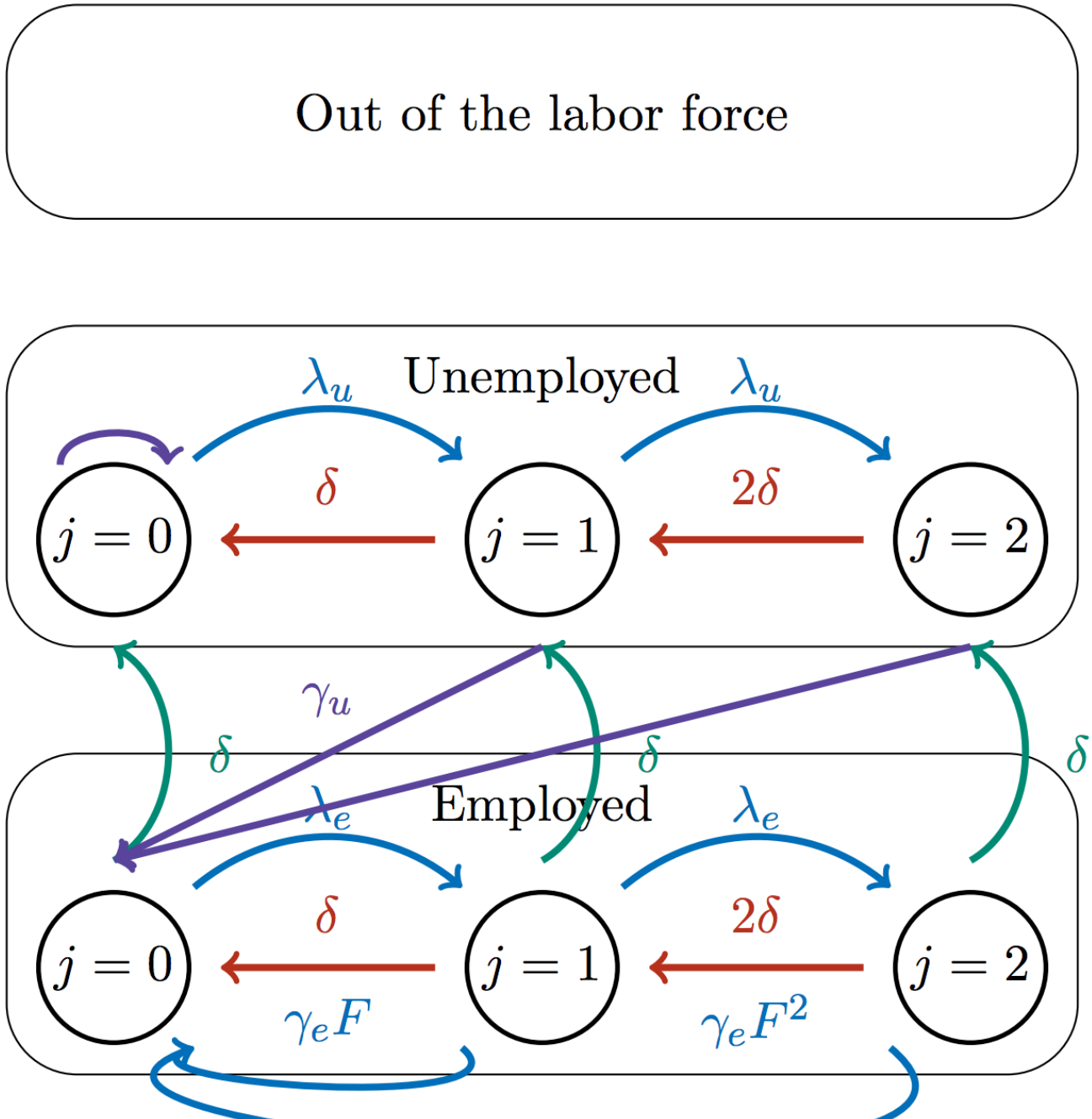
What They Do

- Build a model that incorporates stock-flow matching with a standard job ladder
- Model is tractable, can e.g. characterize the distribution of match qualities
- Quantitative part:
  - Estimate the model to match wage dispersion and transition rates
  - Shows model can match frictional wage dispersion and unemployment duration in the data without large negative flow values of unemployment

The Model

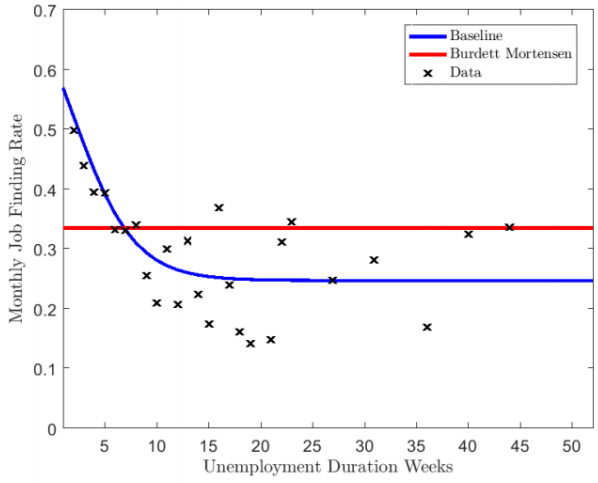

Out of the labor force
Unemployed
λ_u
λ_u
δ
2δ
$j = 0$
$j = 1$
$j = 2$
γ_u
δ
δ
δ
Employed
λ_e
λ_e
δ
2δ
$j = 0$
$j = 1$
$j = 2$
$\gamma_e F$
$\gamma_e F^2$

Wage Setting

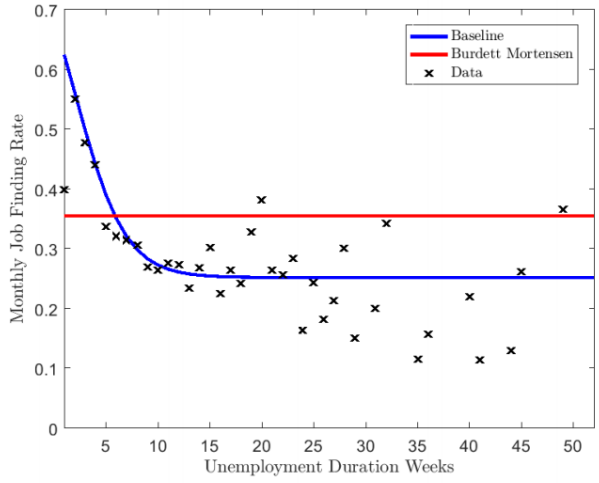
- Workers are paid piece rate wages
- Tractable and admits nice theoretical characterization
- Tradeoff between attracting and retaining the worker
- Counterfactual implication that wages constant in a job spell
- How would introducing alternative protocols (e.g. double auction) affect the results?

Endogenous Duration Dependence in f

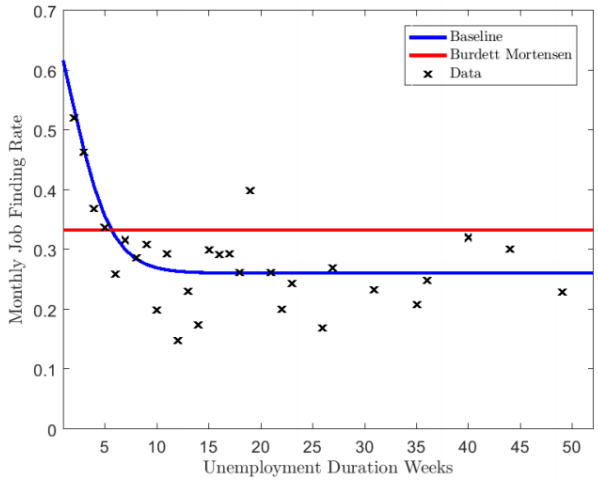
High-Skill



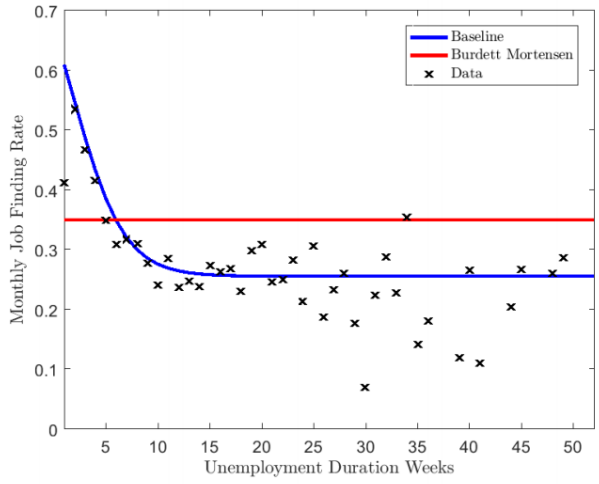
Medium-Skill



Low-Skill



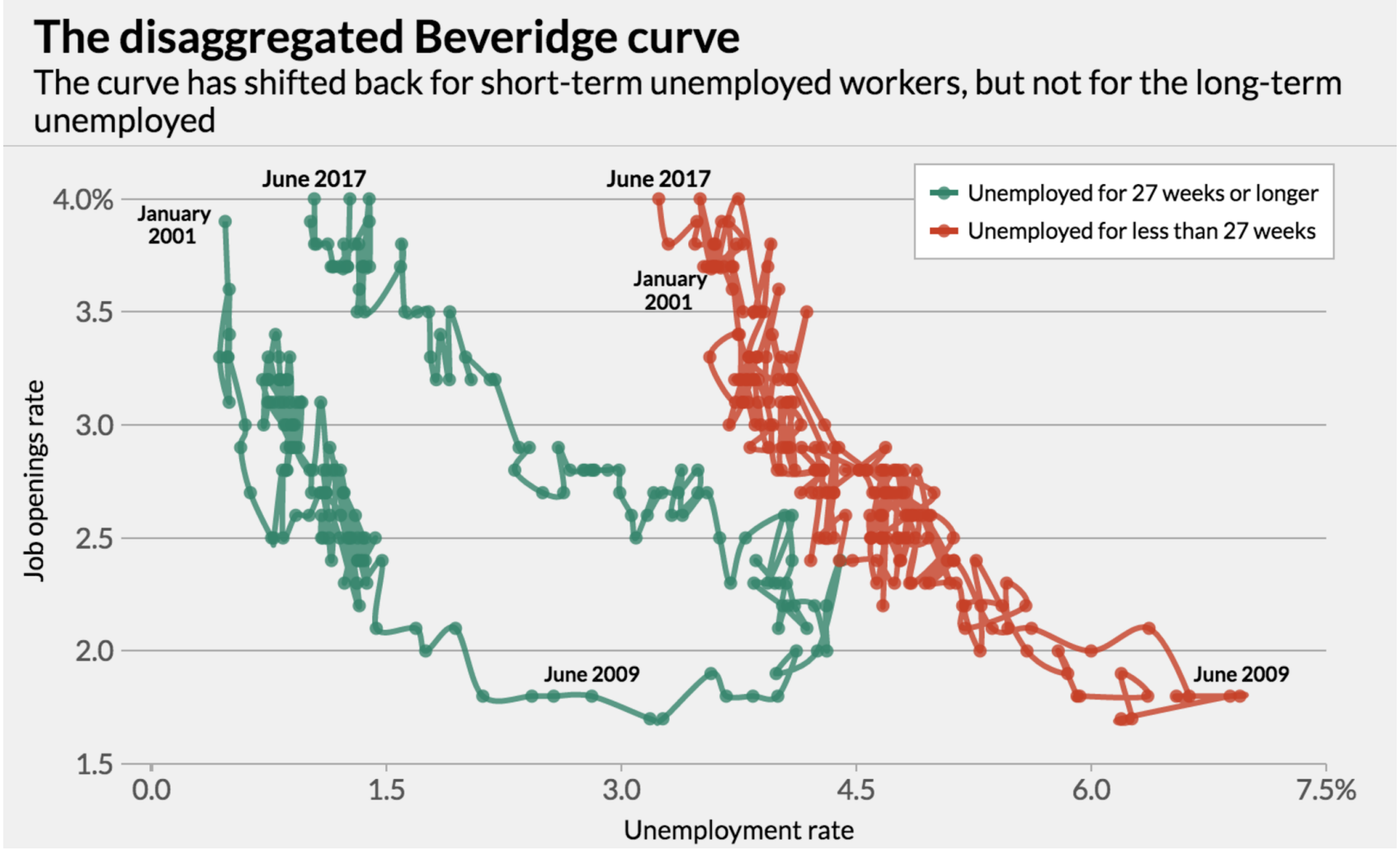
All



Comments on Duration Dependence

- Duration dependence because newly unemployed on average have more job opportunities
- Implication that duration of unemployment should be strongly related to length of last job spell (as opposed to employment spell)
- What about unobserved heterogeneity in λ_s or γ_s?
- What about effort/choice in λ_s or γ_s?
- Would be interesting to run Ahn & Hamilton (2015) analysis on model generated data

Comments on Duration Dependence



Frictional Wage Dispersion

- Show that the model can generate significant frictional wage dispersion with a flow value of unemployed of about 20% of the average wage
- Lots of other potential elements missing from the model that drive wages:
  - Returns to experience/human capital accumulation
  - Returns to tenure/on-the-job learning
- Recent work by Yikai & co identifies significantly less FWD than HKV
- How much are you potentially over-assigning to match quality in the estimation?

The Want Operator

- Very nice model tractable model combining job-ladder and stock-flow ideas
- What is the most interesting question that could be answered with the model:
  - Explaining frictional wage dispersion?
  - Explaining job losses after separation?
  - Explaining duration dependence in job-finding rates?
- Enrich the model along the appropriate dimension to best answer the specific question