

# Economics 742 Bonus Macro-Labor Lecture 1: Time Variation in Monetary Policy Effectiveness, Intro to Macro-Labor

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# Agenda For Macro-Labor

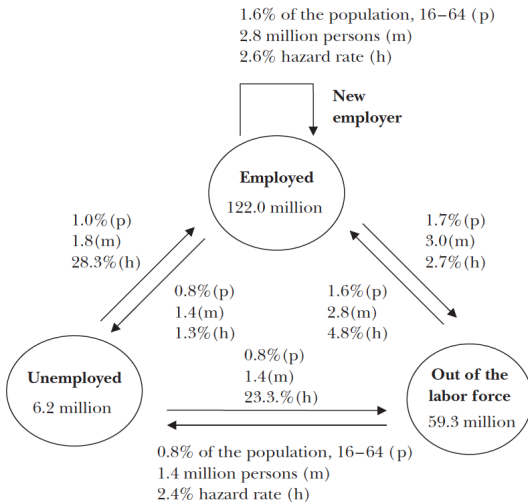
1. Brief Intro and Facts (Today)
2. Flavors of Search Models
3. The Unemployment Volatility Puzzle
4. The Scarring Effects of Job Loss

# The Flow Approach to Labor Markets

- Overall numbers like employment and unemployment rates mask substantial churn in labor markets.
  - Constant hiring and firing, creation of new jobs and destruction of old.
  - Prior to recession, over 10 percent of U.S. workers separated from employers in a quarter.
- Motivates focus on flows rather than stocks.
  - Both in empirical work and in models.
- Can measure as worker or job flows:

$$\text{Net Emp Change} = \underbrace{\text{Hires} - \text{Separations}}_{\text{Worker Flows}} = \underbrace{\text{Creation} - \text{Destruction}}_{\text{Job Flows}}$$

# Transitions Between States



Source: Davis, Faberman, and Haltiwanger (2006)

# Measures of Job Flows

<i>Sampling Frequency and Data Source</i>	<i>Job creation</i>	<i>Job destruction</i>	<i>Hires</i>	<i>Separations</i>
<i>Monthly</i>				
JOLTS, continuous monthly units from microdata, Dec. 2000 to Jan. 2005	1.5	1.5	3.2	3.1
<i>Quarterly</i>				
JOLTS, continuous quarterly units from microdata, Dec. 2000 to Jan. 2005	3.4	3.1	9.5	9.2
BED, all private establishments, 1990:2–2005:1	7.9	7.6	—	—
LEHD, all transitions, ten selected states, 1993:2–2003:3	7.0	6.0	25.0	24.0
LEHD, “full-quarter” transitions, ten selected states, 1993:2– 2003:3	7.6	5.2	13.1	10.7
<i>Annual</i>				
BED, from Pinkston and Spletzer (2004), private establishments, 1998–2002	14.6	13.7	—	—

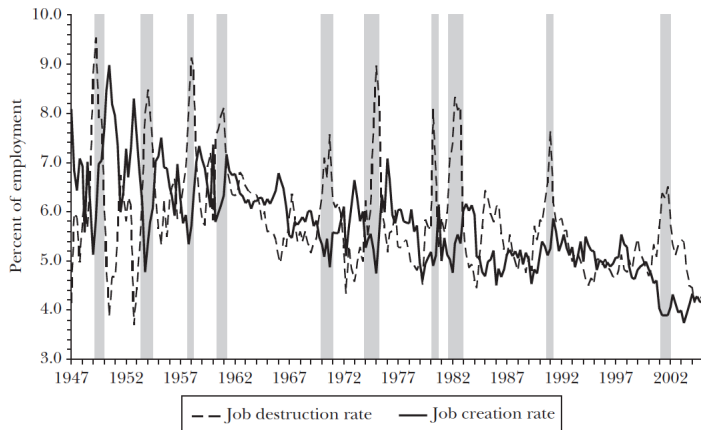
Source: Davis, Faberman, and Haltiwanger (2006)

# Cyclicalitity of Job Flows



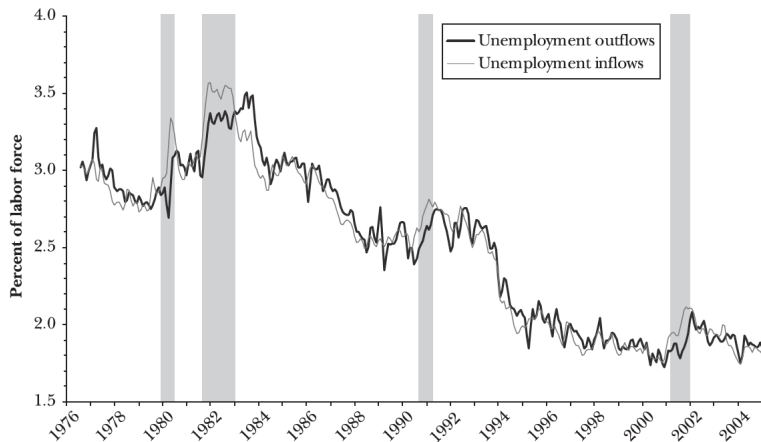
Source: Davis, Faberman, and Haltiwanger (2006)

# Cyclical Job Flows: Manufacturing



Source: Davis, Faberman, and Haltiwanger (2006)

# Worker Flows Into and Out of Unemployment

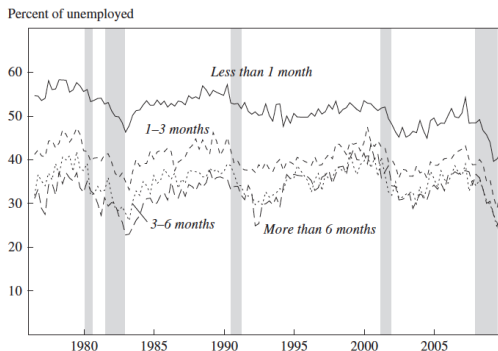


Source: Davis, Faberman, and Haltiwanger (2006)



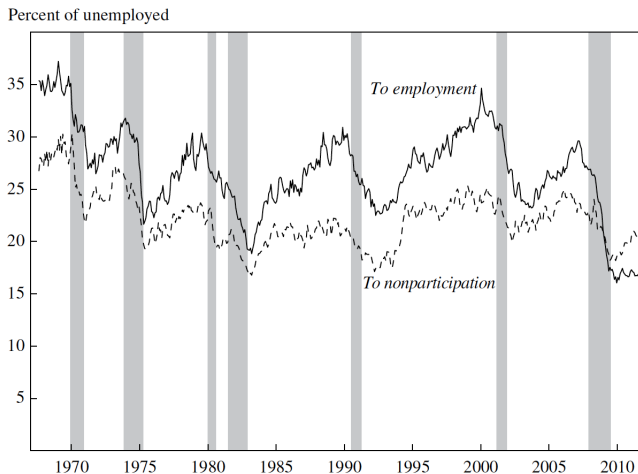
# Flows Out of Unemployment By Duration

- Elsby et al. (2010, 2011): little heterogeneity across observable groups.
- Famously hard to tell duration dependence from unobserved heterogeneity.



Source: Elsby et al. (2010)

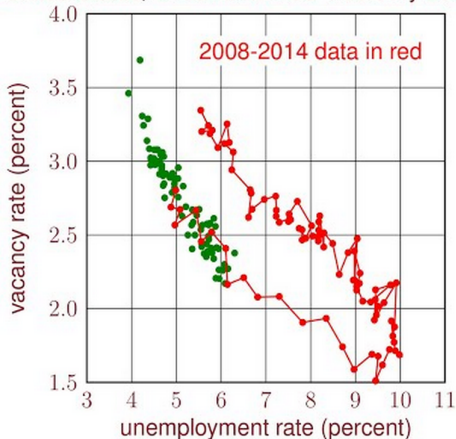
# Flows to Unemployment vs. Non-Participation



Source: Elsby et al. (2011)

# Beveridge Curve

United States, December 2000–February 2015



Source: Robert Shimer's Website

## “Ins and Outs” of Unemployment

- Is the employment exit (“ins”) or job finding margin (“outs”) more important?
- Conventional wisdom from 80s and 90s: Ins more important.
- Shimer (2012) argues 3/4 of fluctuations in the unemployment rate — 90% since 1987 – are due to the job finding margin.
  - Constructs continuous time model where job finding and employment exit are poisson rates.
  - Discretizes and recovers formulae for each rate.
- Leads to focus on job finding rate in recent literature.

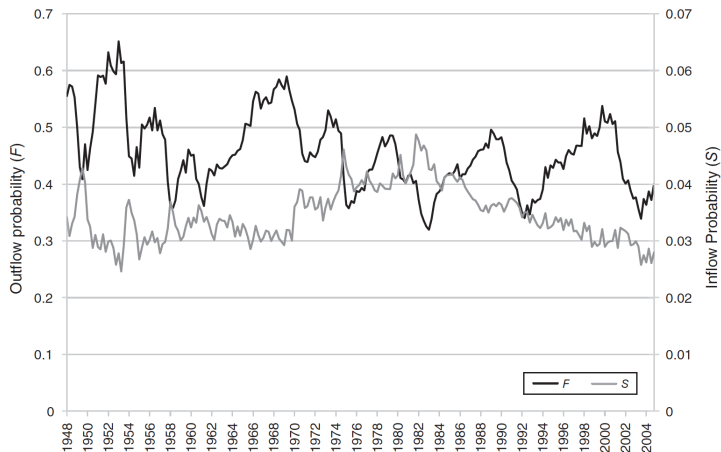
	1	2	3	4	5
	all workers 1948–2010	all workers 1967–2010	all workers 1976–2010	all workers 1987–2010	men 25–54 1976–2010
$\frac{\bar{x}}{\bar{x}+f_t}$	0.77	0.83	0.85	0.90	0.69
$\frac{x_t}{x_t+f}$	0.24	0.17	0.15	0.10	0.32

Source: Shimer (2012)

## “Ins and Outs” of Unemployment

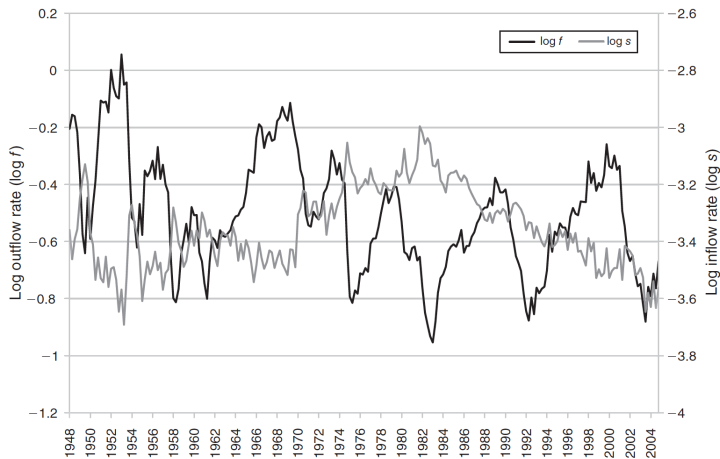
- While Hall (2005) agrees with Shimer, others (Yashiv, 2008; Fujita and Ramey, 2009) challenge.
- Elsby et al. (2009) modify:
  - Job finding rate dominates.
  - But inflows matter in severe recessions.
  - Focusing on aggregate inflow rate masks fluctuations in reasons for inflows between job leavers and job losers.

# “Ins and Outs” of Unemployment: Ins vs. Outs



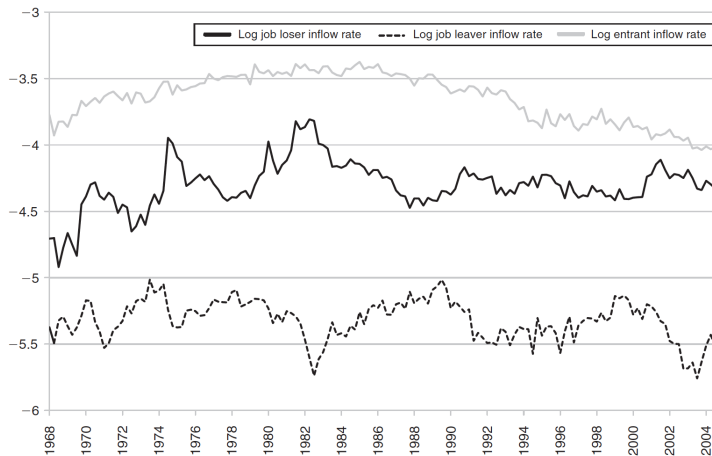
Source: Elsby et al. (2009)

# “Ins and Outs” of Unemployment: Ins vs. Outs in Logs



Source: Elsby et al. (2009)

# “Ins and Outs” of Unemployment: Reason For In



Source: Elsby et al. (2009)