Equilibrium in the Labour Market with Search Frictions

Christopher A Pissarides
London School of Economics

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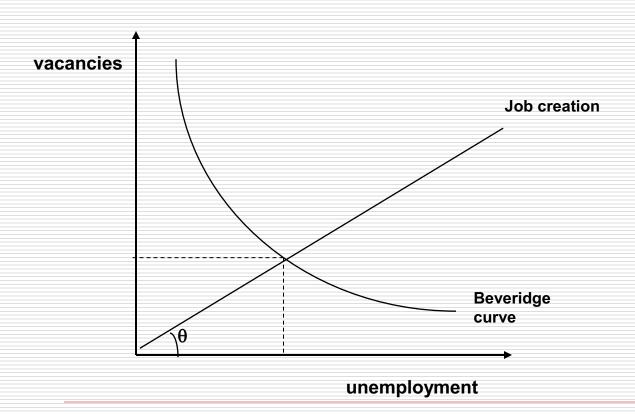
Theory

- How I got into search theory
- Searching for what?
 - Search for a high wage
 - Two-sided search for a good match
 - The matching function

Theory

- □ Towards an equilibrium model
 - Wage bargains
 - Job creation
- Beveridge curve equilibrium

The Beveridge curve and equilibrium vacancies and unemployment



Application 1

Comparing economies over space and time

Comparing economies

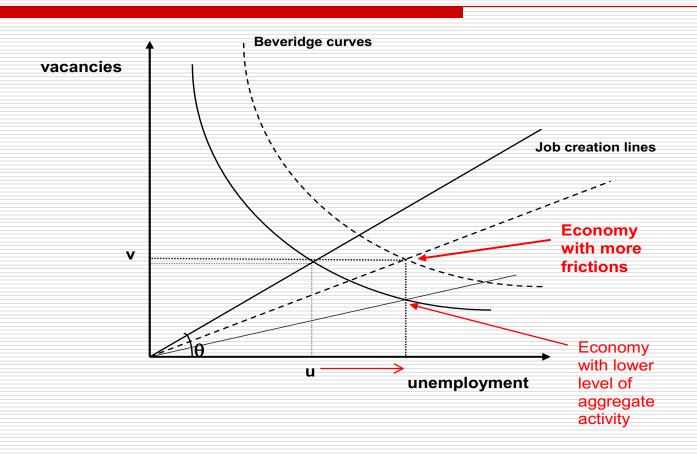


Figure 4 The British Beveridge curve, 1975-1984 (an economy with more frictions) 1.20 1.00 0.80 vacancies % 75 76 80 82 0.60 81 0.40 0.20 0.00 2.00 6.00 8.00 10.00 12.00 14.00 0.00 4.00 unemployment %

Figure 5
The British Beveridge curve, 2008-2010
(an economy with lower level of aggregate activity)

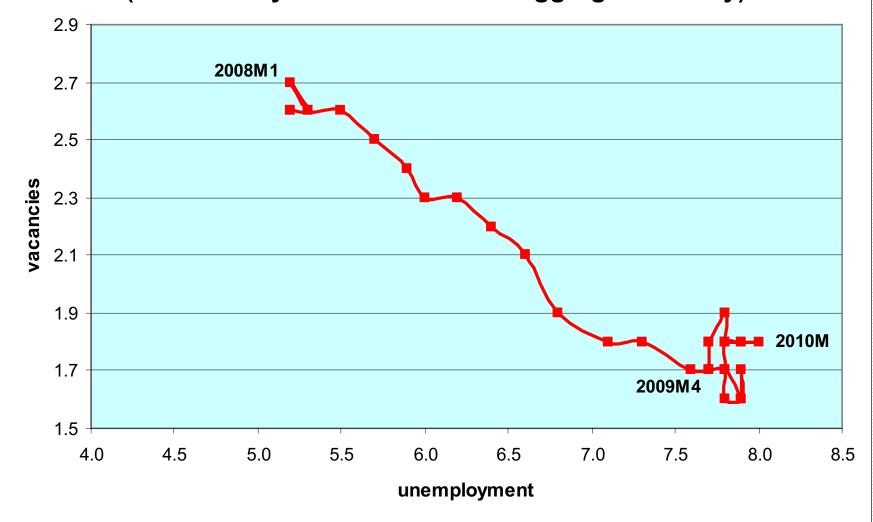


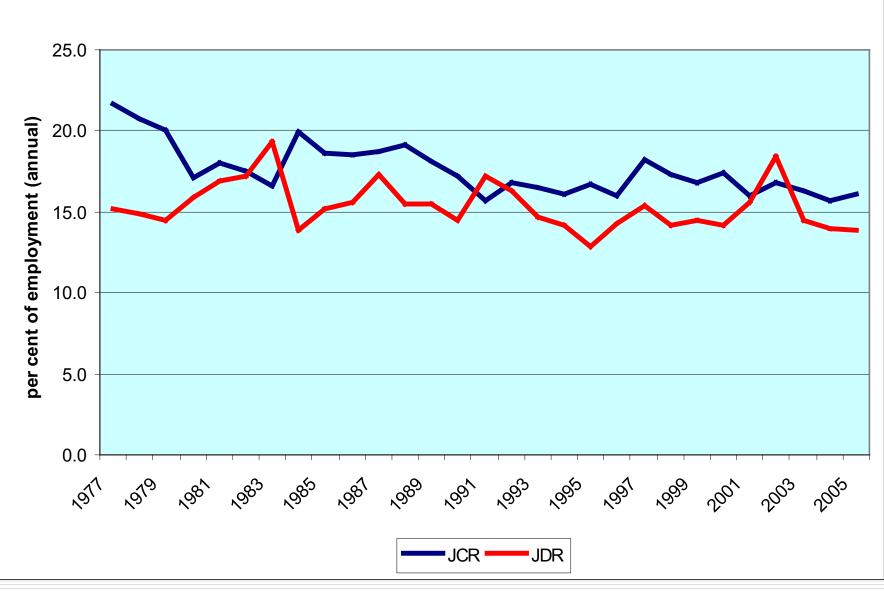
Figure 6 The US Beveridge Curve, 1975-1984 (an economy driven by aggregate economic activity) 5.5 79 5 78 80 4.5 81 4 vacancies 3.5 3 2.5 2 1.5 5 5.5 6 6.5 7.5 8.5 4.5 7 8 9 9.5 10 4 10.5 unemployment

Figure 7 The US Beveridge curve, 2008-2010 (an economy with lower level of aggregate activity, followed by jobless recovery with frictions?) 3.1 2.9 2008M1 2.7 2.5 vacancies 2.3 2010M10 2.1 1.9 2009M4 1.7 1.5 7.0 8.0 9.0 4.0 5.0 6.0 10.0 11.0 unemployment

More applications

- Wage stickiness
- □ Job destruction
- Employment protection legislation

Figure 9 Job creation and job destruction rates, US non-farm sector 25.0 per cent of employment (annual) 20.0 15.0 10.0 5.0



Where do we go next?

- Role of institutions
- Theory of wages: how much wage stickiness and why?
- Imperfect capital markets
- Imperfect knowledge and expectations
- Integration of financial and labour markets