Available online at www.sciencedirect.com

SCIENCE DIRECT

Review of Economic Dynamics 7 (2004) 297–330

Review of Economic Dynamics

www.elsevier.com/locate/red

To match or not to match? Optimal wage policy with endogenous worker search intensity

Fabien Postel-Vinay [a,c,d,*] and Jean-Marc Robin [b,c,d]

[a] *Laboratoire d'Économie Appliquée de l'INRA, École Normale Supérieure, 48, bld Jourdan, 75014 Paris, France*
[b] *Université de Paris I, France*
[c] *CREST–INSEE, France*
[d] *CEPR, UK*

Received 13 February 2002

Abstract

We consider an equilibrium search model with on-the-job search where firms set wages. When an employee receives an outside job offer, it is optimal for the employer to try to retain the employee by matching the offer. This results in a wage increase for the worker. However, if workers are able to vary their search intensity, then this 'offer-matching' policy runs into a moral hazard problem. Knowing that outside offers lead to wage increases, workers tend to search more intensively, which is costly for the firms. Assuming that firms can commit never to match outside offers, we examine the set of firm types for which it is preferable to do so. In particular, we show that a plausible pattern is one where a 'dual' labor market emerges, with 'bad' jobs at low-productivity, nonmatching firms and 'good' jobs at high-productivity, matching firms.
© 2003 Elsevier Inc. All rights reserved.

Keywords: Labor market frictions; Wage policy; Search intensity; Moral hazard

* Corresponding author.
E-mail address: fpostel@java.ens.fr (F. Postel-Vinay).
URL: http://www.inra.fr/Internet/Departements/ESR/UR/lea/fpostel.htm.

1094-2025/$ – see front matter © 2003 Elsevier Inc. All rights reserved.
doi:10.1016/S1094-2025(03)00058-9

1. Introduction

This paper considers an equilibrium job search model with on-the-job search where firms set wages. As was shown by Postel-Vinay and Robin (2002a, 2002b), if employers are perfectly aware of all workers' characteristics and job opportunities, then it is optimal for them to offer their reservation wage to any worker the firm comes in contact with. Also, when an employed worker receives an outside job offer, it is optimal for the incumbent employer to try to retain the worker by matching the outside offer, so long as the resulting wage does not exceed the worker's marginal productivity. This triggers a Bertrand game between the incumbent employer and the 'poacher,' which results in either a wage increase or a job change for the worker.

In this paper we examine the following point: If workers are able to vary their job search intensity, then the 'offer-matching' behavior of firms runs into a moral hazard problem. Knowing that outside offers are matched by employers and thus lead to wage increases, workers are induced to search more intensively, which can be very costly for the firms. The latter thus face a trade-off between loosing profitable workers at a relatively low frequency if they do not match offers, and being forced to grant relatively frequent wage increases if they do.

We look at a situation where heterogeneous firms can commit never to match outside offers, and examine the set of firm types for which it is preferable to do so. We derive sufficient conditions on the parameters for the equilibrium to be of the type 'all firms match' or 'no firm matches.' We also show in computed examples that, when the sufficient conditions are not met, basically any situation can be observed in equilibrium. We argue that a plausible situation is one where high-productivity firms choose to match offers, while lower-productivity firms choose to commit not to match offers. The labor market then looks 'dual,' with 'bad jobs' at low-productivity firms paying low wages and offering no within-firm career prospects, and 'good jobs' at more productive firms that try to retain their workers from being poached by their competitors, thus regularly granting wage increases.

Our contribution is directly related to two strands of literature. One is obviously the 'equilibrium job search' literature (see, e.g., Mortensen and Pissarides, 1999 and Mortensen, 2002 for surveys and recent developments), and the other is the literature on individual employment contracts (see Malcomson, 1999 for a survey).

The former conveys the general idea that, even though market frictions are a source of employer monopsony power, the possibility that worker have to search for alternative job offers while employed is a limitation to that employer monopsony power, as it brings firms into some sort of imperfect Bertrand competition. However, the search literature puts relatively little direct emphasis on the strategic aspects of employees' search for better jobs. Insights in this matter are provided in a series of papers by Mortensen and coauthors (see, e.g., the two references cited earlier and also Christensen et al., 2001) where the job search effort put forth by workers—and in particular by employed workers—is made endogenous. Mortensen shows under reasonably (un)restrictive assumptions that, as one should expect, higher paid employees search less actively, with the satisfactory implication that higher paying firms have lower rates of labor turnover. He does so, however, in a particular context where firms are only allowed to post fixed wages, i.e. to use contracts where by assumption wages are constant over the duration of job matches.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
✓ امکان دانلود نسخه ترجمه شده مقالات
✓ پذیرش سفارش ترجمه تخصصی
✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
✓ دانلود فوری مقاله پس از پرداخت آنلاین
✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات