



Search activities, cost of living and local labor markets

Eleonora Patacchini ^a, Yves Zenou ^{b,*}

^aUniversità di Roma “La Sapienza”, Italy

^bIUI and GAINS (Université du Maine), The Research Institute of Industrial Economics,
Box 5501, 114 85 Stockholm, Sweden

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Abstract

A model is considered in which optimal search intensity is a result of a trade-off between short-run losses due to higher search costs (more interviews, commuting, etc.) and long-run gains due to a higher chance of finding a job. We show that this optimal search intensity is higher in areas characterized by larger cost of living and/or higher labor market tightness. This model is then tested for England on a panel of sub-regional data. Controlling for unobserved heterogeneity between areas and other endogeneity issues, both the local cost of living and the local labor market tightness are found to have a positive and significant effect on jobless average search intensity.

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1. Introduction

There seems to be a growing awareness that some patterns of economic variables might be due to spatial rather than purely economic factors. This is particularly true in the labor market (see, for example, [Topa, 2001](#); [Manning, 2003](#)) and especially for job search activities since a spatial dispersion of agents creates more frictions and thus more unemployment.

* Corresponding author.

E-mail address: yvesz@iui.se (Y. Zenou).

The aim of this paper is to investigate, both theoretically and empirically, the relationship between job search and space by focusing on the impact of local cost of living and local labor market tightness on search activities. We believe that the understanding of these relationships is crucial for regional policies.

From a theoretical point of view, few models have introduced a spatial analysis in a search-matching model. Exceptions include [Seater \(1979\)](#), [McCormick and Sheppard \(1992\)](#), [Rouwendal \(1998\)](#), [Ortega \(2000\)](#), [Coulson et al. \(2001\)](#), [Sato \(2001\)](#), [Wasmer and Zenou \(2002\)](#), and [Smith and Zenou \(2003\)](#). Contrary to these models, our focus is on search intensity and its relationship with cost of living and labor market tightness in a local labor market.

From an empirical point of view, few papers have tested spatial search models. Most of the related empirical literature focuses on the aggregation of the matching function across space and on the interaction between local matching and regional migration or commuting behavior (see in particular the survey by [Petrongolo and Pissarides, 2001](#), and also [Jackman and Savouri, 1992](#); [Burda and Profit, 1996](#); [Burgess and Profit, 2001](#)). In the present paper, we analyze a different issue, namely the relationship between the local average job search intensity, on the one hand, and the local cost of living and/or the local labor market tightness, on the other.

To be more precise, we first develop a simple model in which workers' optimal search intensity is a result of a trade-off between short-run losses due to higher cost of search effort (more interviews, commuting, etc.) and long-run gains due to higher chance of finding a job. We show that this optimal search intensity is higher in areas characterized by larger cost of living and/or higher labor market tightness. The intuition is as follows. First, when labor market tightness rises, it becomes easier to find a job (there are relatively more jobs available compared to the unemployed) and therefore the rate at which workers leave unemployment increases. As a result, workers put more effort in search activities. Second, when the cost of living in a region increases, it becomes relatively less costly to search for a job today and, under some conditions, the expected lifetime differences between employment and unemployment increases because the employed are relatively less affected than the unemployed. As a result, unemployed workers search more intensively both because of immediate reduction in search costs and future higher reward of obtaining a job.

Empirical support for these predictions is found in a panel of sub-regional data in England for the years 1995–2000. We exploit the longitudinal dimension of our data set to control for unobservable heterogeneity between areas, measurement errors in variables and endogeneity issues stemming from individuals' location choices. A spatial modeling framework is also used. Both the cost of living and the labor market tightness are found to have a positive and significant effect on the jobless search intensity in all the specifications and estimation strategies used for the empirical model.

The remainder of the paper is organized as follows. Section 2 presents the theoretical model and its main predictions. Section 3 describes the data, the empirical model and the estimation results. Finally, Section 4 concludes.

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