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Density, social networks and job search methods: Theory and application to Egypt

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Abstract

We first develop a theoretical model in which individuals are embedded within a network of social relationships. We show that, conditional on being employed, the probability to find a job through social networks, relative to other search methods, increases and is concave with the size of the network. The effects are stronger for the uneducated. There is however a critical size of the network above which this probability decreases. We then test empirically these theoretical findings for Egypt using the 1998 Labor Market Survey. The empirical evidence supports the predictions of our theoretical model.

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1. Introduction

It is commonly observed that job seekers use their friends and relatives to find a job. The empirical evidence suggests that about half of all jobs are filled through

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personal contacts.¹ One reason put forward is that it is the most efficient and the least costly job search method (Holzer, 1988). Another explanation is that it allows firms, which are unable to identify the characteristics of applicants because of adverse selection problem, to screen them.² The focus of this paper is different. We analyze the acquisition and transmission of job information by job seekers through their friends and relatives, and in particular the effect of the size and quality of social networks on the probability to find a job.

Calvó-Armengol (2004) and Calvó-Armengol and Zenou (2005) were the first to study the effect of the size of social network in a theoretical context. They use a job-matching model in which workers find jobs through social contacts. They show that more social contacts increase the probability to find a job, a standard result in the social network literature, especially in sociology (see e.g., Wasserman and Faust, 1994). We extend the model of Calvó-Armengol and Zenou (2005) in the case of a developing country by differentiating between low- and high-educated workers. However, we only focus on the transmission of job information through social network rather than on the matching process between firms and workers. Thus, we do not model the matching process, but examine the transmission of job information by comparing the success of using “friends and relatives” versus other search methods. The main contribution of our paper is to test empirically the predictions of the theoretical model of the effect of social network on the probability of finding a job in the case of a developing country.

We develop a theoretical model in which individuals are embedded within a network of social relationships. We focus on social networks of individuals that have weak ties with each other and not necessarily strong ties because we are interested in capturing random encounters and personal contacts that might arise in denser areas.³ We distinguish between two types of workers: the low educated (illiterate and less educated) and the high educated. We assume that the low-educated workers only search using their social networks while high-educated workers use both formal and informal (i.e. networks) methods. By assuming that density does not affect the “job application or at the gate” method (i.e. living in a denser area does not improve your chance to get a job by this method, since even if on average you are more likely to pop in a firm with ads at its gate, there are more workers that will do the same thing),⁴ we show that the probability to find a job through friends and relatives increases and is concave with the network size. We also show that for very dense networks, i.e. large number of weak ties, this probability can even decrease. The intuition runs as follows. Denser areas expose people to more contacts (the size of the network of weak ties increases) so that each worker has more direct friends and therefore has more job information through these friends. As a result, since the probability to find a job directly (i.e. “job application or at the gate” method) does not increase with density, the probability to find a job using friends and relatives increases. The concavity stems from the fact that, if each worker has more friends, each of his/her friends has also more friends to transmit information to, which creates congestion. For very dense

¹ See, for example, Granovetter (1974), Holzer (1988), Corcoran et al. (1980) and Topa (2001).

² See for example Montgomery (1991) and Mortensen and Vishwanath (1994).

³ See Section 3 for a detailed discussion on the definition of weak ties.

⁴ We test the validity of this assumption in Section 6.2.

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