

LSE Economics PhD Placement: Job Market Candidates

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JOB MARKET PAPER:
Unemployment History and Frictional Wage Dispersion

ABSTRACT:

This paper studies wage dispersion in a random matching search model where workers gradually lose human capital during unemployment. Unemployment depreciates wages, so unemployed workers accept lower wages to avoid long unemployment spells. Even among identical workers, this mechanism generates further wage dispersion in search models. Using estimates from micro data, I quantify the amount of wage dispersion in the model and show that the resulting increase in wage dispersion is an important improvement over baseline search models. In baseline search models, workers' success in the labor market is determined by luck. The findings in this paper allow us to understand what happens to search behavior when workers are aware of the damaging effects of unemployment. The results suggest that the welfare costs of recessions may be larger once we take into account the loss of human capital during unemployment.

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