

Reassessing the Importance of Matching Frictions and Job

Rationing in Explaining Unemployment

1. What is the main question(s) raised in the paper (the issue)?

Michaillat (2012) states that matching frictions are the main reason of unemployment during normal times; however, job rationing during recessions plays a bigger role. Since Michaillat's model depends on parameter values and wage rigidity, the speaker proposes a new model with a different wage setting and calibrate using Bayesian method.

2. Why should we care about it (the significance)?

Depending on the cause of unemployment, suggestions on policies are different. If job rationing is the main source of unemployment during recession, unemployment insurance (UI) can be more generous since the effect of decreasing search effort is not significant.

3. What is the author's answer (the findings)?

The author refutes Michaillat's result. Rationing unemployment only exists in 1980s recessions and 2007 recession, and only accounts for less than one percentage of total unemployment. The data also denies the assumption of wage rigidity.

4. How did the author get there (the strategy, empirical approach)?

Instead of wage rigidity, the author assumes model wage to be a weighted average of general Nash Bargained wage and the rigid wage. The author estimates his model based on Bayesian methods and uses Michaillat's calibration as prior.