

“Reassess the importance of matching frictions and job rationing in explaining unemployment”

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

The author proposed a new way to reassess the importance of matching frictions and job rationing in explaining unemployment.

According to Michailat (2012): Job rationing, instead of Matching frictions, is the main source of unemployment during recessions, he directly assumes model wage to be the rigid wage for generating job rationing, and he calibrate his model, instead of estimates it.

Therefore, the author used a new model with different wage setting to see whether the observed data supports Michailat’s assumption on wage and his calibration strategy.

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

If unemployment is mainly explained by matching frictions during recessions, not job rationing problem, implement UI lowers the search effort and thus increase unemployment.

Therefore, it is important to know whether Matching frictions or Job rationing is the main source explaining unemployment during recession.

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

The author found that data do not prefer Michailat’s assumption of wage rigidity : the mean of prior density of weight of rigid wage do not match the estimated posterior mean.

Based on the author’s estimation, rationing unemployment only exist in 1980s recessions and 2007 recession, not during all recession (Michailat’s finding), while rationing unemployment is less than 1 percentage of total unemployment during these 2 recession periods.

Data shows that Matching Frictions are the main source explaining unemployment during both normal and bad time.

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

The author used the new model that is similar to Michailat but has more shocks, and the wage model is a weighted average of general Nash Bargained wage and the rigid wage.

The model was estimated based on Bayesian methods, and the author compared the prior density and posterior density.