Reassessing the Importance of Frictions and Job Rationing in Explaining Unemployment

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

Michaillat(2012) introduces wage rigidity and generates the result which states job rationing is the main cause in bad times and also accounts for a fraction of unemployment in normal time, but the Michaillat's results depend on Parameter values and the form of wage rigidity. The author is trying to reassess whether the matching frictions or the Job rationing is the main cause of unemployment by the new model.

• Why should we care about it (the significance)?

Knowing the main cause of unemployment is crucial for the government to make appropriate policies. For example, unemployment insurance(UI) will lower the search effort, so it can't lower the unemployment rate if the matching friction is the main cause.

• What is the author's answer (the findings)?

The result is very different from Michaillat's result.The Author found out that the rationing unemployment only exists and accounts for less than 1 percent of total unemployment in 1980s recessions and 2007 recession. The matching frictions should be the main cause in both normal and bad times.

• How did the author get there (the strategy, empirical approach)

The new model that author uses assumes model wage to be a weighted average of general Nash Bargained wage and the rigid wage. Treating Michaillat's Calibration as prior,The author estimates his model based on Bayesian methods. Besides, the frequency of the data that the author uses is monthly ,which is different from Michaillat (2012).