Equilibrium in the Labour Market with Search Frictions

Christopher A Pissarides
London School of Economics

Nobel Lecture, 8 December 2010
Theory

- How I got into search theory
- Searching for what?
  - Search for a high wage
  - Two-sided search for a good match
  - The matching function
Theory

- Towards an equilibrium model
  - Wage bargains
  - Job creation
- Beveridge curve equilibrium
The Beveridge curve and equilibrium vacancies and unemployment
Application 1

Comparing economies over space and time
Comparing economies

Economy with more frictions

Economy with lower level of aggregate activity

Job creation lines

Beveridge curves
Figure 4
The British Beveridge curve, 1975-1984
(an economy with more frictions)
Figure 5
The British Beveridge curve, 2008-2010
(an economy with lower level of aggregate activity)
Figure 6
The US Beveridge Curve, 1975-1984
(an economy driven by aggregate economic activity)
Figure 7
The US Beveridge curve, 2008-2010
(an economy with lower level of aggregate activity, followed by jobless recovery with frictions?)
More applications

- Wage stickiness
- Job destruction
- Employment protection legislation
Figure 9
Job creation and job destruction rates, US non-farm sector

per cent of employment (annual)


JCR  JDR
Where do we go next?

- Role of institutions
- Theory of wages: how much wage stickiness and why?
- Imperfect capital markets
- Imperfect knowledge and expectations
- Integration of financial and labour markets