

Uncertainty and the Labour Market:

Recent Developments in
Job-Search Theory

C. J. McKENNA

Lecturer in Economics

University College, Cardiff



DISTRIBUTED BY HARVESTER PRESS

Contents

Preface	ix
Introduction	1
1 Search Processes	4
1.1 Search processes and decision rules	4
1.2 Optimal search processes	6
1.3 Optimal vs. <i>ad hoc</i> processes	13
1.4 Conclusion	17
1.5 Exercises	17
2 Basic Model of Sequential Job Search	18
2.1 Assumptions and structure	18
2.2 The solution	24
2.3 Properties	25
2.4 Participation	29
2.5 The principle of optimality	30
2.6 Conclusion	31
2.7 Exercises	33
3 Extensions	36
3.1 Introduction	36
3.2 Choice of time horizon	37
3.3 The recall problem	46
3.4 On-the-job search	48
3.5 Expected utility maximisation	52
3.6 Residual uncertainty	54
3.7 Adaptive search	58
3.8 Conclusion	60
3.9 Exercises	61
4 The Firm in an Uncertain Labour Market	62
4.1 Introduction	62
4.2 The generation of vacancies	63

4.3	The wage offer	67
4.4	Wage and employment adjustment	69
4.5	Market implications	76
4.6	Conclusion	82
4.7	Exercises	83
5	Empirical Implications	84
5.1	Introduction	84
5.2	The hypotheses and early results	85
5.3	Recent developments	91
5.4	Empirical importance	103
5.5	Conclusion	104
6	Contributions to Microeconomic Theory	107
6.1	Introduction	107
6.2	Job search and consumption	108
6.3	Labour supply, consumption and job search	110
6.4	Unemployment benefit and incentives	115
6.5	Implications for the theory of the firm	117
6.6	Job search and efficiency	120
6.7	Conclusion	122
7	Contributions to Macroeconomic Theory	124
7.1	Introduction	124
7.2	Unemployment and inflation	124
7.3	Aggregate demand	137
7.4	Implications for macroeconomic policy	139
7.5	Conclusion	141
	Conclusion	142
	Notes	144
	<i>Appendices:</i>	
	A.1 <i>Discounting</i>	151
	A.2 <i>Conditional expectation</i>	152
	A.3 <i>Integration</i>	154
	<i>References</i>	155
	<i>Index</i>	165