Determinants of Unemployment Dynamics and the Beveridge Curve in China : Econometric Models Using the Search and Matching Approach

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Abstract

Recently, it has been noticed that high unemployment and job vacancy rates coexist in China. In this study, we examine the unemployment in China by using the search and matching theory, as existing research has not paid much attention to this theory in terms of China's situation. Our structural model includes equations of labor market matching, job creation and destruction, rural-urban immigration, on-the-job search, and unemployment dynamics in China. Non-linear estimation and 3SLS are used. We find that matching efficiency declined greatly during 1996–2008. The simulation results also indicate that productivity growth contributed to unemployment in China; the reason here is that while such growth led to the creation of more jobs than it destroyed, the jobs that were created did not lead to adequate levels of employment. Finally, we derive the Beveridge curve of China, which indicates that a decline in matching efficiency and job destruction shocks were the main determinants of unemployment in China during 1996–2008.

Keywords: unemployment, job vacancy, matching efficiencies, job creation, job destruction, the Beveridge curve of China