

The Wage and Employment Adjustment Process in the Japanese Labor Market: A VECM Approach

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Abstract

This paper investigates the wage and employment adjustment processes following shocks in the Japanese labor market from 1985-2002. Most of the literature on employment adjustment does not consider the wage adjustment that accompanies employment adjustment in the labor market. We analyze wage and employment adjustment using a vector of error correction model. We find that employment adjustment has become more important since the collapse of the bubble economy because of the downward rigidity of wages. This wage rigidity prolongs the employment adjustment period following shocks.

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