

On-the-Job Training: From Acemoglu to Becker?

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Abstract

I analyze the firm's decision of how much general but informal training to provide in the presence of on-the-job search. Due to lack of formal measure on the training intensity, firms flexibly adjust their training intensity at any time, but hardly charge the cost of training to their workers. Even without any contractual agreement on training, firms still provide training not only to improve productivity (investment motive) but also to keep their workers from defecting to other firms (compensation motive). Furthermore, better paying firms are encouraged to provide more intensive training by investment motive, while they are discouraged by compensation motive. The implied wage-training pattern among ex-ante identical firms is reverse U-shaped. That is, training intensity rises with wage payment at low wages, but declines at high wages. Also, as the search friction is mitigated, the investment motive is deteriorated, but the compensation motive is intensified. I also show that the training intensity per trainee declines with the accelerated offer arrival rates in the numerical experiment with reasonable parameter values.