Employment and Hours over the Business Cycle in a Model with Search Frictions

Abstract

This paper studies a labor market search model with multi-worker firms to investigate how firms utilize the extensive and intensive margin over the business cycle. The earnings function derived from the Stole-Zwiebel bargaining acts as an adjustment cost function for employment and hours. We calibrate the model to match the Japanese labor market. The model replicates the observed large fluctuations in hours of work.