Finite Employment Period and Employment Fluctuations

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Abstract

The fluctuations in employments have been intensively researched in the business cycle literature. One of the reasons why workers lose their employment is the destruction for their opportunity of getting new job. There exist the lucky and unlucky situations for the people who search for a job. A standard model can only analyze the changes in employments because of the absence of perspective on the timing on when the workers are hired or fired. In order to focus on the change in the opportunity, we construct a model that has a finite employment period. This paper analyzes the fluctuations in new employments and total employments that is driven from an expected shock. In our model, under the assumption that a firm does not incur any adjustment costs, an increase in productivity in the future takes not only an increase in the labor demand but a decrease in it at the current period. This behavior is caused by the assumption of the finite employment period that plays a role as the labors do not lose their characters. Moreover, the patterns of fluctuations are depended on when the shocks occur. These results cannot be derived by a frictionless model and an adjustment cost model.

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