

Theoretical and Empirical Overeducation with On-the-Job Search

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Abstract

In a two-sided search and matching model with on-the-job search, this paper analyzes the differences between theoretical overeducation, the gap between socially optimal and individually chosen education level, and empirical overeducation, the gap between required and own achieved education level. This paper finds empirical overeducation tends to deviate from theoretical overeducation depending on schooling costs. Theoretical overeducation can play a role to tell how economy is far from optimal point. However, empirical overeducation have little information from long run macroeconomics perspective. This paper also finds the effect of job-to-job transition efficiency on social welfare. High job finding rate for job-to-job transition does not always imply higher social welfare than the economy with low job finding rate for job-to-job transition. From these results, we can expect optimal policy depending on combinations of policy variables, schooling cost, job-to-job transition efficiency and both of them.

Keywords: Overeducation, Self-Selection, Job search, Optimal Policy

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