

Education, Training and Policies under Labor Market Frictions*

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Abstract

This paper addresses the issue about what the government (policies) should do to gain efficiency of education and training under labor market frictions. The government subsidizes education and training as a remedy for hold-ups caused by ex-post wage bargaining. The result requires that the government's cost share to training should be equal to the worker's bargaining power and also requires that education subsidies should work to fill the gap between the elasticity of the production function with respect to education and the worker's "effective" bargaining power, which the literature has paid little attention to. *JEL Classification*: I28, J24, J64

KEYWORDS: education, training, policy, search and matching, wage bargaining, efficiency

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