

Job Search Intensity and Wage Rigidity in Business Cycles*

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Abstract

The standard search and matching model with endogenous job search efforts predicts that unemployed workers reduce their search efforts in a depressed labor market and these procyclical search efforts amplify the labor market fluctuations. Therefore, endogenous search efforts seem to partly solve the “volatility puzzle”, but some empirical literature argues that search efforts are actually countercyclical. We extend the above standard model by incorporating wage rigidity and show that search efforts could be both procyclical and countercyclical depending on the degree of wage rigidity, and when wages are sticky enough, search efforts become countercyclical, but the labor market fluctuations are still large.

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