Recruiting Wedge

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https://pascalmichaillat.org/c2/

Notation:

- $\rho > 0$: recruiting cost, # recruiters required to maintain a vacancy per unit time (read CVs, interview)

- $c(t)$: consumption → provides utility, < output

- $y(t)$: output → consumption + recruiting services

- $\tau(\theta)$: recruiting wedge

$$y = [1 + \tau(\theta)]\, c$$

is amount of services required for recruiting per unit of consumption.

- $v(t)$: vacancies.

Recruiting wedge:

- v vacancies at time t

- $v\, q(\theta)$ employment relationships created

- on Beveridge curve: $UE = EU$

$$v\, q(\theta) = \lambda \cdot e$$

⇒ for employment e: need $\boxed{v = \frac{\lambda e}{q(\theta)}}$

⇒ to sustain employment e: # recruiters required is

$$\rho v = \frac{\lambda \rho \ell}{q(\theta)}$$

• # services devoted to recruiting when employment is ℓ :

$$a \rho v = \frac{\lambda \rho a \ell}{q(\theta)} = \frac{\lambda \rho y}{q(\theta)}$$

<u>Link b/w consumption & output:</u>

$$c = y - y \frac{\lambda \rho}{q(\theta)} = \left[1 - \frac{\lambda \rho}{q(\theta)} \right] y$$

$$y = \frac{q(\theta)}{q(\theta) - \lambda \rho} \cdot c$$

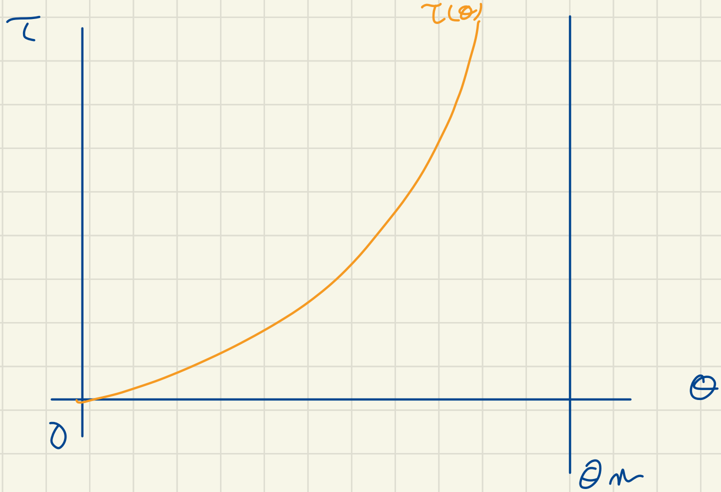
$$y = \left[1 + \frac{\lambda \rho}{q(\theta) - \lambda \rho} \right] c$$

$\tau(\theta)$

$$\boxed{\tau(\theta) = \frac{\lambda \rho}{q(\theta) - \lambda \rho}}$$

Same as in basic model, except that $\lambda \rho$ replaces ρ !

- $\tau(\theta)$ is $\nearrow$ in θ
- $\tau(0) = 0$ b/c $q(0) = +\infty$ $\left(q(\theta) = \mu \theta^{-\eta}\right)$
- θ_m st $q(\theta_m) = \lambda \rho \rightarrow \tau(\theta_m) = +\infty$



τ
$\tau(\theta)$
θ
0
θ_m