Macroeconomic implications of labor market frictions
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Citation for published version (APA):

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Fluctuations in economic activity, business cycles, are a fact of life. An important factor shaping the character of economic fluctuations is the labor market. However, the labor market does not operate smoothly. Neither workers, nor firms are all the same. Therefore, it often requires a substantial amount of time and resources to look for a job or a suitable worker and to agree on the terms of employment. These search and matching frictions are the reason why unemployed workers and vacant jobs coexist.

This thesis focuses on business cycles, the welfare costs related to them, and how developments in the labor market impact the overall economy. In particular, it provides a theoretical model showing that fluctuations in economic activity can be very costly for society, because they can decrease the level of output. Moreover, empirical results suggest that increased severity of search and matching frictions can explain up to one fifth of the unemployment run-ups during the most severe recessions. Finally, recent studies have shown that young firms are important for aggregate job creation. Based on a theoretical model, in which firm age is the main driver of a firm’s growth, the thesis shows that government support of business start-ups increases output. On the contrary, subsidizing existing firms reduces aggregate output as the selection process of successful firms is disrupted and average firm productivity declines.

Petr Sedláček (1982) obtained his MPhil degree in econometrics and macroeconomics at the Tinbergen Institute in Amsterdam. He also holds an MA degree in Economics of international trade and European integration from the Joint European Studies Program and an MSc degree in Economic policy and macroeconomic analysis from the University of Economics in Prague. In 2008 Petr began work on his PhD thesis at the University of Amsterdam, where he currently holds a postdoctoral researcher position.