CENTRE DE RECERCA EN ECONOMIA INTERNACIONAL

GENERALITAT DE CATALUNYA UNIVERSITAT POMPEU FABRA

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June 17-19 Barcelona CREI, UPF Ciutadella Campus

Labor Markets and Business Cycles



Robert Shimer University of Chicag

2008 Inaugural

CREI Lectures in Macroeconomics



CREI Lectures in Macroeconomics

The Centre de Recerca en Economia Internacional (CREI) is a research centre sponsored by Universitat Pompeu Fabra (UPF) and Generalitat de Catalunya. It is located at the main campus of the UPF in Barcelona.

CREI is launching a new series of bi-annual lectures in macroeconomics, with support from Princeton University Press. The aim is to bring young but already senior speakers to Barcelona. Scholars will have recently made a major, focused contribution to the study of macroeconomics or international economics. The lectures will provide a high-level summary of recent work that has already had a large impact on the profession. Princeton University Press has agreed to publish a series of CREI Lectures in Macroeconomics.

Robert Shimer

Robert Shimer is Professor of Economics at the University of Chicago. He graduated with a BA from Yale in 1990, and holds a PhD in Economics from MIT. Prior to joining the Chicago faculty, Shimer taught at Princeton University. He is a co-chair of the NBER Economic Fluctuations and Growth "Macro Perspectives" group, and has served as editor of the Journal of Political Economy since 2004.

Shimer is best-known for his extensive work on unemployment and search and matching frictions on the labor market. His most widely cited papers include:

- "Efficient Unemployment Insurance," 1999, with Daron Acemoglu. *Journal of Political Economy*, 107: 893-928.
- "Assortative Matching and Search," 2000, with Lones Smith. *Econometrica*, 68(2): 343-370.
- "The Cyclical Behavior of Equilibrium Unemployment and Vacancies," 2005.
 American Economic Review, 95(1): 25-49.
- "Reassessing the Ins and Outs of Unemployment," 2007. NBER Working Papers 13421
- "Mismatch," 2007. *American Economic Review*, 97(4): 1074-1101.
- "Search and Rest Unemployment," 2008, with Fernando Alvarez. NBER Working Papers 13772.

Schedule

June 17th, 15:30-17:30 Lecture 1 June 18th, 11:00-13:00 Lecture 2 June 19th, 11:00-13:00 Lecture 3

Lectures will be held in the main auditorium, at the CREI's new building. UPF, Ciutadella Campus, c/Wellington/Ramon Turró.

Due to limit seating availability, please register with aventura@crei.cat

Labor Markets and Business Cycles

The lecture series will summarize and extend recent results on cyclical fluctuations in labor market outcomes.

The focus is on the behavior of hours, employment, unemployment, and the "labor wedge"—the difference between the marginal rate of substitution of consumption for leisure and the marginal product of labor.

Lecture 1 develops a model to show that, while search frictions may be useful for understanding the average level of the unemployment rate, in certain benchmark cases they do not yield any fluctuations in unemployment and the labor wedge. The main conclusion from this lecture is that search frictions per se do not imply fluctuations in labor market outcomes.

Lecture 2 considers modifications to the benchmark model that break the neutrality result. Shimer examines alternative preferences where income and substitutions effects do not cancel, allows for alternative shocks beyond the one to the productivity of the consumption goods sector, and for incomplete markets.

Lecture 3 explores alternative models of unemployment. Shimer starts by studying the matching function (Pissarides, 2000). An important feature of models based on the matching function is that unemployment is a stepping stone to a good labor market outcome. This is inconsistent with empirical evidence that workers who experience unemployment typically reenter the labor market at a low wage. Based on research in two recent papers ("Mismatch", American Economic Review, 2007; and "Search and Rest Unemployment," with Fernando Alvarez), Shimer suggests alternative approaches that may be helpful in explaining this fact.