

Discussion of "Precautionary Mismatch" by Eric Huang and Xincheng Qiu

Discussion by Vytautas Valaitis

Duke University

QMUL Economics and Finance PhD Workshop, 2021

Summary

Main idea:

Incomplete markets → Decumulate wealth while waiting for the job offers →
Households with low wealth end up accepting worse matches.

Implications for:

- Misallocation and TFP loss due to labor mismatch.
- Unemployment Insurance to improve the allocation of talent and GDP.

Summary

Main idea:

Incomplete markets → Decumulate wealth while waiting for the job offers → Households with low wealth end up accepting worse matches.

Implications for:

- Misallocation and TFP loss due to labor mismatch.
- Unemployment Insurance to improve the allocation of talent and GDP.

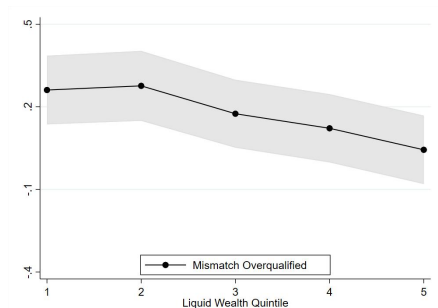
What the paper does:

- Empirically: Finds a positive (negative) relationship between liquid wealth and the length of unemployment spell (labor market mismatch) among labor market entrants using NLSY79 data.
- Model: Proposes a model of incomplete asset markets, frictions labor market and two-sided heterogeneity that generates a negative relation between liquid assets and labor market mismatch.

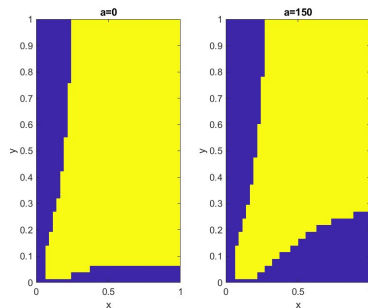
Contribution

- Incomplete markets and labor market outcomes: Mongey & Luo (2019), Chaumont and Shi (2020), Lise (2013), Herkenhoff (2015)
 - This paper: Output loss due to mismatch resulting from imperfect insurance.
- Misallocation and TFP loss: Hsieh & Klenow (2009), Restucia & Rogerson (2008), Bilal et. al. (2020)
 - This paper: misallocation arising in the labor market.

Main Results



Data: Labor market mismatch decreases in liquid wealth. Most of it is due to poorer people accepting jobs where they are over-qualified



Model: Better matches are more productive and result in higher wages. Worker reservation wage increases in wealth and as a result, richer households end up in better matches.

Comments: Empirical Results

- Missing pieces in the puzzle

Comments: Empirical Results

- Missing pieces in the puzzle

- Ideally would want an IV estimate of mismatch on liquid wealth. Should try to control for things like location, debt, spouse or parental income

Comments: Empirical Results

- Missing pieces in the puzzle

- Ideally would want an IV estimate of mismatch on liquid wealth. Should try to control for things like location, debt, spouse or parental income
- Is unemployment duration related to larger mismatch? We still don't know what causes the mismatch.

- Quantitative importance

Comments: Empirical Results

- Missing pieces in the puzzle

- Ideally would want an IV estimate of mismatch on liquid wealth. Should try to control for things like location, debt, spouse or parental income
- Is unemployment duration related to larger mismatch? We still don't know what causes the mismatch.

- Quantitative importance

- Is the estimated degree of mismatch similar to one is Lise & Postel-Viney (2020)?

Comments: Empirical Results

- Missing pieces in the puzzle

- Ideally would want an IV estimate of mismatch on liquid wealth. Should try to control for things like location, debt, spouse or parental income
- Is unemployment duration related to larger mismatch? We still don't know what causes the mismatch.

- Quantitative importance

- Is the estimated degree of mismatch similar to one is Lise & Postel-Viney (2020)?
- How much of the mismatch can be explained by wealth differences? How relevant is the liquid wealth for non entrants?

Comments: Empirical Results

- Missing pieces in the puzzle

- Ideally would want an IV estimate of mismatch on liquid wealth. Should try to control for things like location, debt, spouse or parental income
- Is unemployment duration related to larger mismatch? We still don't know what causes the mismatch.

- Quantitative importance

- Is the estimated degree of mismatch similar to one is Lise & Postel-Vinay (2020)?
- How much of the mismatch can be explained by wealth differences? How relevant is the liquid wealth for non entrants?
- How important are these mismatches in terms of forgone income? Typically people can search on the job and employment spells are short. Could check if the effects of mismatch on individual income are persistent.

Comments: Empirical Results

- Things that were not clear:

Comments: Empirical Results

- Things that were not clear:
 - Why only use the cognitive skill to measure mismatch?

Comments: Empirical Results

- Things that were not clear:
 - Why only use the cognitive skill to measure mismatch?
 - Sample changes between the sections not obvious. Why some sections only analyze the first unemployment spell and others use a panel of 15 years length?

Comments: Empirical Results

- Things that were not clear:
 - Why only use the cognitive skill to measure mismatch?
 - Sample changes between the sections not obvious. Why some sections only analyze the first unemployment spell and others use a panel of 15 years length?
- Measurement:

Comments: Empirical Results

- Things that were not clear:

- Why only use the cognitive skill to measure mismatch?
- Sample changes between the sections not obvious. Why some sections only analyze the first unemployment spell and others use a panel of 15 years length?

- Measurement:

- Measurement of worker characteristics. What is the time between the labor market entry and the time when ASVAB was taken? This is relevant as the sample is made of late labor market entrants

Comments: Empirical Results

- Things that were not clear:

- Why only use the cognitive skill to measure mismatch?
- Sample changes between the sections not obvious. Why some sections only analyze the first unemployment spell and others use a panel of 15 years length?

- Measurement:

- Measurement of worker characteristics. What is the time between the labor market entry and the time when ASVAB was taken? This is relevant as the sample is made of late labor market entrants
- How is unemployment defined? Did people indicate that they were searching for jobs?

Comments: Empirical Results

- Things that were not clear:

- Why only use the cognitive skill to measure mismatch?
- Sample changes between the sections not obvious. Why some sections only analyze the first unemployment spell and others use a panel of 15 years length?

- Measurement:

- Measurement of worker characteristics. What is the time between the labor market entry and the time when ASVAB was taken? This is relevant as the sample is made of late labor market entrants
- How is unemployment defined? Did people indicate that they were searching for jobs?
- Figure 2, top panel seems to regress $m_{i,c}$ on wealth. Better to use $|m_{i,c}|$

Comments: Model

Comments: Model

- What is the "no misallocation" benchmark?

Comments: Model

- What is the "no misallocation" benchmark?
- Since wages are renegotiated every period, what about voluntary separations when $U(a, x, y) > W(a, x)$?

Comments: Model

- What is the "no misallocation" benchmark?
- Since wages are renegotiated every period, what about voluntary separations when $U(a, x, y) > W(a, x)$?
- What are the vacancy posting cost per job?

Comments: Model

- What is the "no misallocation" benchmark?
- Since wages are renegotiated every period, what about voluntary separations when $U(a, x, y) > W(a, x)$?
- What are the vacancy posting cost per job?
- Quantitative results:
 - Still need to match the distribution, wealth-to-income, unemployment rate, distribution of occupations and worker types, wages etc.
 - Unemployment insurance "b" determines the number of matches that do not result in jobs and, therefore, is the most important parameter. Now the calibration target is not clear.
 - The scaling in the model is not clear. Instead of presenting labor market outcomes in function of wealth, maybe better to show in terms of wealth to average income.

Comments: Model

- What is the "no misallocation" benchmark?
- Since wages are renegotiated every period, what about voluntary separations when $U(a, x, y) > W(a, x)$?
- What are the vacancy posting cost per job?
- Quantitative results:
 - Still need to match the distribution, wealth-to-income, unemployment rate, distribution of occupations and worker types, wages etc.
 - Unemployment insurance "b" determines the number of matches that do not result in jobs and, therefore, is the most important parameter. Now the calibration target is not clear.
 - The scaling in the model is not clear. Instead of presenting labor market outcomes in function of wealth, maybe better to show in terms of wealth to average income.
- Looking ahead: need to close the model for policy analysis
 - PE (No asset market clearing): more insurance $\rightarrow$ less mismatch but higher unemployment.
 - GE (Asset market clearing): more insurance $\rightarrow$ less saving $\rightarrow$ higher discounts, higher unemployment and mismatch.

Comments: General

- Connection between the model and the empirical part?
 - Either write the model that can rationalize your empirical findings.
 - Or use the estimates to discipline the model.

Comments: General

- Connection between the model and the empirical part?
 - Either write the model that can rationalize your empirical findings.
 - Or use the estimates to discipline the model.
- Narrow down the contribution.

Comments: General

- Connection between the model and the empirical part?
 - Either write the model that can rationalize your empirical findings.
 - Or use the estimates to discipline the model.
- Narrow down the contribution.
- A lot of potential.