ABSTRACT

This thesis deals with the application of a well-known analytical tool, the Beveridge Curve, to the analysis of two samples of countries within the OECD. The novelty of the thesis mainly resides in the use of novel data-sets, the careful analysis of the impact of the Great Recession on the labour markets of the countries under scrutiny, and the application, in chapter 4, of a distance function approach to the joint modelling of youth and non-youth unemployment rates. The thesis must be seen as a monographic work, as there are considerable links between its four chapters.

The goal of chapter 1 is to introduce the search and matching approach to labour market analysis, trying to analyse its main properties and its recent developments. The job creation decision of firms and the behaviour of job-seekers are illustrated and the equilibria of the model in the unemployment-vacancy space and in the tightness-wage space derived. Some attention is devoted to the welfare evaluation of the matching model, which is shown to be socially efficient if and only if the Hosios condition is satisfied. Unfortunately, the private solution is usually unlikely to be efficient and the equilibrium unemployment rate can be either below or above its socially efficient value. The last part of the chapter deals with the analysis of the Beveridge Curve. Beyond the explanation of the main properties of the Curve, the analysis illustrates how the Beveridge Curve is able to capture the main facts regarding the cyclicality of the economy and the behaviour of the labour market over the cycle.

In chapter 2, the dynamics of unemployment in the OECD are analysed, obtaining comparable estimates of inflow and outflow rates for twenty OECD economies. These rates are used to estimate the equilibrium unemployment rate predicted by the standard search and matching model. The analysis reveals that the search and matching model provides a good description of unemployment patterns only if the economy is characterised by high rates of inflow and outflow. If this condition does not hold, the underlying theoretical model seems to be unable to replicate the dynamics of unemployment, showing large deviations from the steady-state. Although the steady-state approach proposed in the second chapter seems unsatisfactory in explaining variations in the unemployment rate, At any rate, since in the rest of the thesis aims at estimating econometrically the Beveridge Curve across OECD economies, the indicators developed in this chapter, the inflow rate in particular, will prove useful for that empirical evaluation.

Chapter 3 is dedicated to an econometric analysis of the Beveridge Curve, considering two different sets of countries, namely thirteen OECD economies and twelve European economies. This division is made necessary by the nature of the data about vacancies. The goal of this chapter is, first, to reassess the role of institutional variables, like unemployment benefits, employment protection legislation, active labour market policies, and union density on labour-market matching. Secondly, and more innovatively, it deals with the impact of the recent financial crisis on unemployment, with a view to understand whether the recent financial crisis has simply generated movements along the curve or shifts of the curve, eventually leading to long-lasting changes in the functioning of labour markets. The results obtained via the econometric estimates suggest that unemployment benefits rule the roost among labour-market institutions. The unemployment-vacancies trade-off is improved by a higher replacement rate and more strictness in the benefit provision protocol. Both these effects can be rationalised in terms of higher search efficiency. Moreover, the results suggest that the recent financial crisis has, as a whole, either left unchanged or improved the Beveridge trade-off. Further research is advisable for those countries that have consistently shown signs of improvement (mainly, Austria, Germany and Portugal), if useful policy advice must be delivered in this ambit.

Chapter 4 provides an extension of the Beveridge Curve framework to the analysis of youth unemployment in the OECD. In that chapter, besides considering the role of labour market institutions, a set of demographic and educational factors are taken into account, which are assumed to be relevant in explaining youth unemployment. In order to consider the young unemployed jointly with the rest of the unemployed workers, a distance function approach is applied, where youth and non-youth unemployment are jointly driven by vacancies and the other relevant variables. Although it has extensively been applied in empirical papers, especially in productivity analysis, this is, at least based on current knowledge, the first application of the distance function approach in the macro-labour literature. Application of this approach looks promising, but future research must aim to still improve the quality of the estimates and, hence, the quality of the inferences that can be drawn in the analysis of youth unemployment. At any rate, the evidence from this chapter too signals improving performance in recent years, especially for Austria, Germany and Switzerland, which calls for further research focusing on the labour markets of these countries.