Review Notes – Worker Mobility

- Worker mobility and human capital
  - How are the two related?
    - Application of human capital model => make sure you know how to use the cost/benefit approach.
  - What is worker mobility?
    - Migration
    - Immigration
    - Turnover

- Geographic Mobility
  - Empirical Evidence – we discussed some from the book and handout – just know trends and general idea not all the details of the numbers.
  - Human Capital Predictions – when does migration increase?
    - Poor opportunities at home.
    - Good opportunities in other area(s).
  - Empirical results
    - Migrants attracted to high wage areas
    - Little correlation between unemployment rates in other areas and migration into that area (why?)
    - In general, the characteristics of the place of origin have little impact on migration – that is, as an area gets poorer => little impact on migration rates from that area. Why?
  - What variables increase the likelihood of migration?
    - Age – the single best predictor – as age increases => likelihood of migration decreases. Why?
    - Education – second best predictor – as education levels increase => likelihood of migration increases. Why?
    - Distance of the move – as the distance increases => likelihood of migration decreases. Why? How is distance related to education?

- International Migration and the Skills/Earnings Distribution
  - The importance of differential returns in decisions to migrate
    - Suppose the earnings differential between skilled and unskilled is lower in the foreign country than in the domestic country => skilled more likely to immigrate to domestic country. Why?
    - Suppose the earnings differential between skilled and unskilled is higher in the foreign country than in the domestic country => unskilled more likely to immigrate to domestic country. Why?

- The Returns to Migration
  - What affects the returns? Depends upon the <u>reason</u> for the migration
    1. Economic Migration either International or Domestic
       - If one moves with a job => Earnings increase ~ 14 to 18 percent.

- If one moves without a job =>Earnings increase ~ 6 to 19 percent.

2. Family Migration
   - If the family migrates => different effects dependent upon the person in the family
   - Net family income rises.
   - Some family members incomes may fall (why?) called tied movers.
   - Who are tied movers?
   - Increased preference to move to urban areas (why?)

- Returns to Immigration – Do immigrants have positive returns and how much?
  - Want to compare earnings of immigrants with what they would have made before immigration. Why can't this be done?.
  - Compare immigrants to native born.
    - Immigrants earn less than natives initially. Why?
    - The differential between immigrants and natives declines over time. Why?
    - Immigrants earnings grows relatively quickly over time – reflects investment in human capital.
    - Return migration is substantial
      - Approximately 20 percent of immigrants eventually return to native country.
      - Therefore, the returns to immigration noted above are biased (why?) – overstate the returns.

- Public Policy - Immigration
  - We discussed the history of U.S. immigration policy. You should know the general outline.
  - What about illegal immigration?
  - Does Immigration hurt us?
    - First, does one immigrant take one job by native?
      - Use demand and supply to show that the answer is no. Wages fall and employment falls but not one for one.
    - Who gains and loses from immigrations?
      - Domestic Winners
        1. Consumers – prices fall and output rises.
        2. Employers – wages fall and profits rise.
        3. Some domestic workers – make sure you know which ones
      - Domestic Losers
        1. Some domestic workers – again make sure you know which ones.
    - How about overall – do the gains outweigh the losses?
      - The issue is whether the immigrants produce more than they consume.
      - This ignores utility issues of natives (e.g., if non-producing relative of citizen immigrates => presumably the native gains utility even though net output falls.)
      - If immigrants finances consumption out of earnings => at worst no better off and at best natives are better off (e.g., if immigrant pays taxes). Why?

- What if immigrants consume out of public assistance programs? Under what conditions would the immigration increase/decrease net welfare?
- What is the empirical evidence?

- Turnover and Job Matching
  - What is job mobility?
    - For workers equals human capital investment
    - For society mobility helps to match workers with employers which increases productivity and utility.
  - Job Matching
    - Initially, neither firms nor workers are likely to be 100 percent satisfied with match between them. Why?
    - What affects job matching?
      1. Tenure – if it is a bad match => more likely to move earlier. What is the data on this?
      2. Age – increasing age means that workers know their own preferences better => less likely to make a bad match => less likely to move. Data?
      3. Wages – more likely to quit a low wage job. Why? Data?
      4. Size of firm – quit rates decrease as size increases. Why? Data?
      5. Gender – quit rates increase for women. Why? Data?
      6. Cyclical effects – higher unemployment rates => employment falls => quit rates fall. Just the reverse for layoffs. Why? Data?
      7. Location – quits increase in urban areas. Why?
  - International Comparisons.
    - U.S. tends to be more highly mobile than other countries (like U.K) Why?

- Turnover Costs, Mobility and Monopsony Power
  - Increasing mobility costs will increase monopsony power. Why?
    - We did the standard demand and supply analysis in class both for a competitive market and one with increased monopsony power.
    - What is the evidence?

- Job Search
  - P_{UE} = the fraction of unemployed who find jobs.
  - As P_{UE} decreases => what happens to the probability that workers find jobs?
  - Assumptions of the model
    - Wages are based on the characteristics of the job and <u>not</u> the worker.
    - Minimum skill level to obtain a job is K.
    - Wage = w(K)
    - There exists a distribution of wage offers dependent upon K – what's a distribution?
    - K^* = the individual's skill level

- The wage distribution gives us: (1) w_r = the reservation wage, (2) e(w) = the expected wage, (3) $w^*(K^*)$ = the maximum wage the individual can get. Know what each of these looks like on the wage distribution graph.

▪ Results from the model

- What is the probability that the worker gets a job, graphically?
- What happens to the duration of unemployment as the probability of getting a job increases/decreases?
- Can the probability of getting a job equal 100%?
- Workers will be underemployed. What does this mean? Why?
- Similar workers will not have similar wages. Why not?
- Increasing search intensity increases the probability of finding a job. Why?
- If the cost of unemployment decreases (why would it?) => w_r decreases => what happens to the duration of unemployment and the workers wage once he finds a job?
