

Accepted Manuscript

Efficiency-Wage Competition and Nonlinear Dynamics

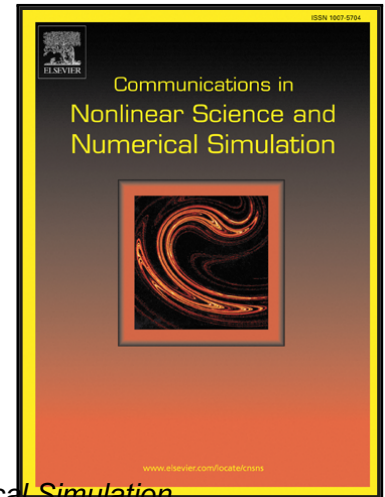
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Highlights

- We build an efficiency-wage model in which the effort response to competitors wage offers is nonlinear;
- Under the assumption that the strategic relationship among optimal wage bids is non-monotonic, we show that market wage offers can actually display persistent fluctuations described by a piece-wise non-invertible map;
- Developing the analysis by considering the case in which firms are perfectly coordinated as well as the one in which competitors act without coordination, we find multistability of equilibria and high-periodicity or chaotic attractors;
- Assuming that employers are never constrained in the labour market, we give evidence that in the parameter region of chaotic dynamics the model is able to reproduce a degree of wage stickiness consistent with the empirical evidence;
- We show that the efficiency-wage competition carried out by firms in order to secure better workers lead to some inefficiency in the wage setting process.

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