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On the Effects of Ranking by Unemployment Duration *

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Abstract

We propose a theory based on the firm's hiring behavior that rationalizes the observed significant decline of callback rates for an interview and exit rates from unemployment and the mild decline of reemployment wages over unemployment duration. We build a directed search model with symmetric incomplete information on worker types and non-sequential search by firms. Sorting due to firms' testing of applicants in the past makes expected productivity fall with duration, which induces firms to rank applicants by duration. In equilibrium callback and exit rates both fall with unemployment duration. In our numerical exercise using U.S. data we show that our model can replicate quite well the observed falling patterns, with the firm's ranking decision accounting for a sizable part.

JEL classification: D 82; D83; J64

Keywords: Ranking; Sorting; Directed Search; Exit Rates; Wages; Unemployment Duration

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