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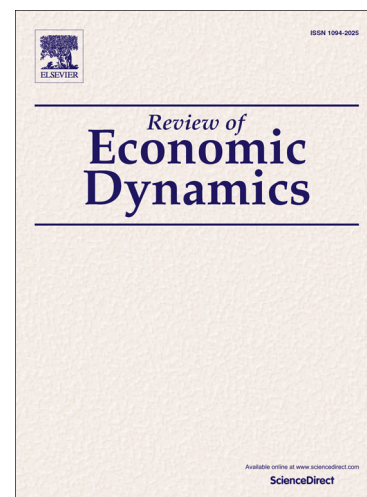
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Employment and the Cyclical Cost of Worker Benefits

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Abstract

Both aggregate and micro-level data show that the firm-paid quasi-fixed cost of an employee's benefits fluctuates with labor market conditions. It declines when the labor market deteriorates and rises when the labor market improves. This paper develops an RBC model to study the impact of this cyclical quasi-fixed labor cost on firms' employment decisions. I find that the cost increases employment volatility and delays employment adjustments when productivity shocks are small. The model reflects the sluggish employment recoveries of the post-1990 period, but not before that. It also generates data-matching volatility for employment and other business cycle variables.

Keywords: employment, firm-paid quasi-fixed cost of employee benefits, DSGE, business cycles.

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