

Bidding for Labor

Benoit Julien

We present a competing-auction theory of the labor market, where job candidates auction their labor services to employers. An equilibrium matching function emerges which has many of the features commonly assumed, including constant returns to scale in large economies. The auction mechanism also generates equilibrium wage dispersion among homogeneous workers. We characterize the expected rate of pure "coordination unemployment": unemployment that exists purely for coordination reasons. When agents can choose whether to become workers or employers, the symmetric stationary equilibrium is efficient in the sense that it maximizes the expected surplus, given the matching process.

Key words: Matching, wage determination, auctions, unemployment, efficiency.

JEL Codes: E24, J31, J41, J64, D44

Correspondence:

School of Economics and Finance

and

Institute for the Study of Competition and Regulation (ISCR)

Victoria University of Wellington

Wellington

New Zealand

benoit.julien@vuw.ac.nz