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Search externalities and management policies

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Abstract

How can externalities in the labor market interact with firms' adoption of Human Resource Management (HRM) policies ? I build a search-and-matching model in which managers supervise teams of workers and intervene in the output process, in order to account for the equilibrium determination of managers' choice between labor-hoarding versus labor-churning HRM policies. I show that, if congestion externalities on workers' side are strong enough, they are willing to accept moderate wages provided the job-finding rate is high enough. This induces managers to adopt labor-hoarding HRM policies, which fosters manager entry into the market. The model thus establishes a testable result, namely, a positive relationship between the strength of congestion externalities on workers' side, and firms' propensity to adopt labor-hoarding HRM policies.

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