

Signaling in the labor market: New evidence on layoffs, and plant closings

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In this asymmetric- information model of layoffs, high-productivity workers are more likely to be recalled to their former employer and may choose to remain unemployed rather than to accept a low-wage job. In this case, unemployment can serve as a signal of productivity, and duration of unemployment may be positively related to post- laid-off wages even among workers who are not recalled. In contrast, because workers whose plant closed cannot be recalled, longer unemployment for them should not have a positive signaling benefit. Analysis of the data from the January 1988-2000 Displaced Workers Supplements to the Current Population Survey reveals that the wage/unemployment duration relation differs between laid-off workers and workers displaced through plant closings in the predicted way, and finds evidence consistent with asymmetric information in the U.S. labor market.

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