How hires are made: the economist’s view

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Outline

1. Theory: of spaghetti and workers

2. Empirical evidence from economics
The market for spaghetti

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- How does the labor market depart from this ideal situation?
The market for workers: top 3 problems

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- Workers may know more about how good they are than firms do, and firms may know more about how good they are than workers do:
  - *Asymmetric information* leads to worse hires: e.g. a firm may hire workers who presented themselves as qualified but turn out to be incompetent.
Why do economists care? Macro outcomes

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- Inequality: why are some workers more likely to be unemployed? Why do some workers make lower wages and some higher?
Why do economists care? Policy relevance

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- "Ban the box" increases asymmetric information because employees know more about their criminal records than prospective employers.
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- Lesson from theory to improve matching efficiency: firms should post all relevant information in a way that is easy to access by potential candidates.
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Matching frictions: how important are they?

- Do workers know where to find jobs, are employers able to attract the right candidates?

Marinescu & Wolthoff (2017): job titles are used by firms to communicate their job type, and by workers to direct their applications.

Only 20% of jobs post a wage. More than 90% of the variation in wages is explained by job titles.

Neglecting job titles: higher wage jobs get fewer applications!

Wages play a supportive role: within a job title, higher wage jobs get more (7% more for 10% wage increase) and better applicants.

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The power of algorithmic recommendations for hires

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- Horton (2017) studies ODesk (now Upwork). Employers got up to six candidate recommendations based on their job opening. The job filling rate increased by 20% in technical jobs, and recommended candidates did not displace organic candidates.

Lesson: since testing and algorithmic recommendations can improve hires, the hiring process still has matching frictions & can be improved.
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Matching frictions and policy: unemployment insurance

- During the Great Recession, the duration of unemployment insurance benefits was multiplied by 3 in many states, from 26 to 99 weeks.

Unemployment insurance decreases applications: 10% increase in the duration of benefits decreases applications by 1%.

Unemployment insurance does not affect the number of vacancies, so applications per vacancy decrease.

This reduction in the competition for jobs means that the market is less congested: probability of a match for a given application goes up, and this partially counteracts the overall decline in applications.

Taking into account the impact of unemployment insurance on matching frictions, the impact of unemployment insurance on overall unemployment is 40% smaller than previously thought.
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Accounting for geography of job search: geographic mismatch can explain up to 5.3% of US unemployment rate in 2012.

Mismatch increases only slightly (to 6.9%) when also accounting for heterogeneity of jobs and job seekers by occupation (SOC2).

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Education and skills mismatch 1/2

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Do community college students know about the labor market outcomes (wages and employment) associated with different majors? Do community college students factor in labor market outcomes when choosing a major? Survey of community college students in California. Only 16% of students get the salary ranking of 4 broad majors right, & they make large errors, overestimating salaries (by 13%) and underestimating the probability of employment (by 24%). Enjoyment and grades more important than labor market outcomes for major choice: surprisingly similar to 4-year college students.
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Low impact of salary on major choice in observational data relative to experiment may be explained by large errors students make about salaries in the observational data.

Lesson: mismatch is possible due to lack of information about labor market outcomes & lack of interest in labor market outcomes. Better & more user-friendly information about jobs & salary could improve labor market outcomes and reduce mismatch.
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"Ban the Box" dramatically reduced the call-back rates of black applicants relative to whites.

Most plausible explanation: employers assume that many blacks have a criminal background and no longer bother to interview them in the absence of a background check.

Lesson: asymmetric information is important in the labor market and policy can have unintended consequences.
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Well-functioning labor markets with quick & high quality hires lead to lower unemployment and higher economic growth.

Public policy can greatly influence the hiring process via e.g. unemployment insurance, education or anti-discrimination policies. Algorithmic recommendations & digital tools can improve the hiring process: exciting research ahead with economics & data science!
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Thanks and contact

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