

A DIRECTED SEARCH MODEL OF CROWDING OUT

PUBLICATION FACTS

JOURNAL

REVIEW OF ECONOMIC
DYNAMICS

PUBLICATION DATE

2022

VOLUME/ISSUE

43

PAGES

308-340

AUTHORS

Chen, Yu (Sonja)

ABSTRACT

I show that the labor-market crowding out of less-educated workers can be understood as the labor-market response to an adverse-selection problem. When high-skilled workers apply for less skill-intensive jobs, adverse selection arises when employment contracts cannot systematically discriminate against education level, even though overqualified workers are more likely to quit. In order to separate workers, the equilibrium distorts the labor-market outcomes of less-educated workers with an inefficiently high unemployment rate. Furthermore, the distortion creates a market value of post-secondary vocational education, because it acts as an entry barrier and protects less-educated workers from the competition of overqualified college graduates. (C) 2021 Elsevier Inc. All rights reserved.

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