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"The separating equilibrium by age on the labor market"

(with François Langot)

Abstract:

We consider an adverse-selection problem within competitive search environment: firms commit on specific hiring costs. Workers hold private information on their probability of entering into retirement before the termination of the contract. When the retirement decision is exogenous and information complete, the long term employment relationship is preferred by the risk adverse workers. This implies that firms must implement a screening process when the information is asymmetric. This optimal separating contract (an ascending wage profile) distorts the allocation of the workers who will retire later (the good-type workers) in order to prevent the workers who will retire early (the bad type workers) to apply on these jobs. When the fraction of bad types is low, a pooling allocation can be constructed to make both types of workers better off, so that the separating equilibrium is Pareto dominated. In a second part, we endogenize the retirement decision by considering two cases: an heterogeneity ex ante or ex post. As in the benchmark case, a separating equilibrium always exists, where good workers accept an ascending wage profile in order to make themselves distinct from the bad workers. We show that this asymmetrical information leads to early retirement compared to the full information economy, and in case of ex post heterogeneity the employment rate is unambiguously lower.