

Endogenous Job Contact Networks

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Abstract

We use the UK Quarterly Labour Force Survey to document the presence of: one, a positive correlation between unemployment rate and the proportion of job seekers who use social networks to find jobs-network use-, and, two, a non-monotone relation between unemployment rate and the proportion of job seekers who found jobs through friends or relatives{network productivity. This second relation is positive for low levels of unemployment rate, while it becomes negative for high levels of unemployment rate. Existing models of social networks and labor market generally assume that social networks are exogenous. This assumption implies a negative correlation between unemployment rate and network productivity. We develop a model where social networks are used to collect job offers, but workers decide strategically how much to invest in their network. We show that equilibrium job contact networks are dense and more productive in transmitting information when labor market turnover is moderate, while they are less productive and segmented into clusters for either high or low turnover. The equilibrium response of job contact networks to changes in labor market conditions is sufficient to generate the empirical patterns which we document for the UK.

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