

JOB MARKET SIGNALING OF RELATIVE POSITION, OR BECKER MARRIED TO SPENCE

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Abstract

This paper considers a matching model of the labor market where workers, who have private information on their quality, signal to firms that also differ in quality. Signals allow assortative matching in which the highest-quality workers send the highest signals and are hired by the best firms. Matching is considered both when wages are rigid (non-transferable utility) and when they are fully flexible (transferable utility). In both cases, equilibrium strategies and payoffs depend on the distributions of worker and firm types. This is in contrast with separating equilibria of the standard model, which do not respond to changes in supply or demand. With sticky wages, despite incomplete information, equilibrium investment in education by low-ability workers can be inefficiently low, and this distortion can become worse in a more competitive environment. In contrast, with flexible wages, greater competition improves efficiency. (JEL: C72, C78, D82)