

Summaries of Articles

Do workers really benefit from their social networks?

by François Fontaine

This paper provides a simple matching model in which unemployed workers and employers can be matched together through social networks or through more “formal” methods of search. We show that, in some case, networks substitute for labor market and that this crowding-out effect may be socially costly. For that reason, a policy increasing the social capital of the disadvantaged workers can increase the unemployment rate and decrease workers’ output.

Keywords: economic policy, matching, social networks, unemployment.

JEL Classification: E24, J64, J68, Z13.

Working versus schooling: the impact of social expenditure

by Christopher Grigoriou and Grégoire Rota Graziosi

We develop a theoretical model where child labour results from a household’s trade-off between sending a child to school or to work. Education is considered as a risky investment, since the survival of the child is not certain. We explore the effects of public expenditure on education and health on child labour, specifying a transmission mechanism for each kind of spending. On the one hand, we establish that health expenditure reduces child labour all the more as child mortality rate is high. On the other hand, a moderate aversion to risk is a necessary condition for education expenditure to reduce child labour. Our theoretical results are empirically validated on panel data from 66 developing countries between 1985 and 2000.

Keywords: child labour, education spending, health spending.

JEL Classification: J20, K31, D60.

Minimum wage, unemployment benefits and labour market efficiency

by Frédéric Gavrel and Isabelle Lebon

Using a simple matching model with differentiated skills, we study the effect of a minimum wage on mismatch. Introducing a minimum wage appears to improve the assignment of jobs to workers by making “bad” matches impossible. Three main results are established. First, a minimum wage increase may improve the efficiency of the labour market. Next, as soon as the minimum wage is binding (some workers do earn this minimum), unemployment benefits lose their effect on productivity, becoming invariably inefficient then. In the end, numerical simulations show that introducing a minimum wage might be more efficient than increasing unemployment benefits.

Keywords: minimum wage, unemployment benefits, productivity, matching, employment, differentiation of skills.

JEL Classification: J64, J65.

Conservatism, representativeness and Anchoring in a dynamical context: an experimental approach

by Anne Corcos and François Pannequin

Several heuristics have been developed by economists and psychologists in order to explain economic behaviour on financial markets. They stress the cognitive bias that affect individual judgments and that partially could explain anomalies observed on financial markets. The aim of our experiment is to test the pertinence of one or the other of conservatism, representativeness and anchorage-adjustment heuristics in a financial context. Its specificity relies on its dynamical context. Fifteen periods along, subjects are given financial information on firm profitability. They are asked to formulate beliefs and to update them accordingly to new information. Econometric treatment of our experimental panel data refutes Bayesian updating: subjects underestimate high probabilities and overestimate low ones. Representativeness heuristic seems to be invalidated in the same way: subjects underweight the most intensive signals and thus, never exploit the whole information. On the contrary, conservatism and anchorage-adjustment are jointly accepted: subjects underweight new information when updating, but this behaviour becomes actually obvious when distinguishing situations in which subjects move away from the anchoring value, from those in which they move closer this value.

Keywords: experimental economics, repeated investments, uncertainty environment, updating beliefs, Bayesian inference, cognitive process, over and underreactions, heuristics, conservatism, anchorage, representativeness.

JEL Classification: C11, C91, D8, D9.