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**Global dynamics in a model with search and matching in labor and capital markets.** (English)

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Summary: Global macroeconomic dynamics are studied when search frictions are present in both labor and capital markets. On the basis of the *M. Merz* [“Search in the labor market and the real business cycle”, J. Monet. Econ. 36, 269–300 (1995)] macroeconomic model with labor market frictions and capital accumulation, our paper offers an extension to frictions in capital markets, analogously modeled as a search and matching process. Using the Merz model as limit case, we consider exogenous as well as endogenous borrowing constraints. We also allow the cost of issuing bonds to change endogenously. As we show, capital market frictions exacerbate and accentuate the interaction between the two markets and magnify the effects of shocks on output, consumption, employment, and welfare. This interaction of the frictions in labor and capital markets are also shown to give rise to multiple equilibria. On the basis of numerical solution techniques, instead of relying on first or second order approximations around a (unique) steady state, our paper uses dynamic programming techniques to compute decision variables and the value function directly and assess the local and global dynamics of the model. The steady state solutions are studied by using the Hamiltonian and the dynamics are assessed for various model variants by using dynamic programming techniques.

**MSC:**

- 91B51 Dynamic stochastic general equilibrium theory
- 91B55 Economic dynamics
- 91B40 Labor market, contracts (MSC2010)
- 91B68 Matching models

Cited in 6 Documents

**Keywords:**

search and matching frictions; global macroeconomic dynamics; credit constraints; equilibrium unemployment

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