

LUCAS PRESCOTT (1974) ISLAND MODEL
INTERPRETATION AND AN APPLICATION

April 2015

TWO TYPES OF EQUILIBRIUM

- ▶ Without movement:
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- ▶ Movement is more likely when:
 - ▶ difference in shock is large
 - ▶ discount is high
 - ▶ persistence is high

APPLICATION:

A MULTI-SECTOR EQUILIBRIUM SEARCH MODEL OF LABOR

REALLOCATION BY LAURA PILOSSOPH

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- ▶ How much unemployment is due to sectoral mobility shocks?
- ▶ How much of the great recession's unemployment is due to an **asymmetric shock** in the construction sector?

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 - ▶ eliminating mobility frictions decreases u by 10%
- ▶ Construction sector in the great recession:
 - ▶ what would happen if shocks were symmetric?
 - ▶ insight: gross flows versus net flows
 - ▶ there is hardly an increase in unemployment (relative to asymmetric shocks)