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Brief Bio

I am macroeconomist, mostly interested in issues regarding the labor market. My research spans a number of themes including search and matching in the labor market (which was the major topic of my work in recent years), the labor market and financial markets, immigration issues, and exchange rate economics. I am a research fellow at the Center for Economic Policy Research (based in London), at the Centre for Economic Performance of the London School of Economics (London) and at IZA (based in Bonn). A brief outline of key contributions is given below.

Over the past two years I have been a consultant to the Bank of Israel on issues regarding Israeli Arabs in the labor market. This is an ongoing project involving both academic, empirical work and policy prescriptions.

I am also involved in other policy-related activity: I was the head of the Macro-economic team at the 17th annual Caesarea conference (2009), and I have been consulting at the Ministry of Finance and the Ministry of Trade, Industry and Employment on various occasions. I am Chair of the steering committee of the Vacancies Survey of the Central Bureau of Statistics. Additionally, I have published numerous OpEd pieces in Haaretz and The Marker.

I teach graduate and undergraduate courses in the fields of Macroeconomics, International Monetary Economics, Public Sector Economics, and Labor Economics.

Brief outline of recent research contributions

In what follows I briefly outline a few key themes from my recent research (for details see my web page cited above).

In my joint paper with Monika Merz (Merz and Yashiv (American Economic Review 2007)), I explore the role that labor plays in firms' market value. This exploration is undertaken in the context of a production-based asset pricing model with frictions in the adjustment of capital and labor and with forward-looking agents. The hiring of labor is akin to investment in capital and the two interact, with the interaction being a crucial determinant of the time series behavior of market value. Using aggregate U.S. corporate sector data, the firms' optimal hiring and investment decisions are structurally estimated and the consequences for firms' value are derived. The estimated firm value, which moments fit the data well, is decomposed into labor and capital components. The results validate the idea that investment and hiring asset values are forward-looking, expected present value expressions. They exhibit relatively high volatility, similar to the behavior of financial variables with an asset value nature. This links a major financial variable -- the market value of firms -- to these two asset values.

The results are more than asset pricing results; they have significant implications in at least two key areas of research:

Business cycle research. This idea has implications for business cycle research. The model used is a combination of a labor search and matching model and a Q model of investment. Both posit frictions and try to study their implications for cyclical fluctuations in labor and capital. The paper provides some essential quantification of the relevant frictions, doing so in terms of firm values. It shows that while the frictions themselves (hiring costs, capital adjustment costs) are moderate, they have an important role in accounting for fluctuations. The paper thus explains fluctuations in hiring and investment (see Section 4 in the paper) and these are key for understanding fluctuations in employment, capital, and output.

Asset Pricing. The results here are fundamental. The paper is able to explain both the level and the volatility of stock prices using macroeconomic variables (see, in particular, Table 5 and Figure 1 of the paper). An anonymous referee of the paper in the American Economic Review has noted in his report: "this paper gets the level of stock prices right, which nobody has ever been able to do.....it also adds important weight to the finance literature that finds labor income factors are important to explaining stock returns."

The paper makes significant contributions to three strands of literature and establishes a connection between them:

(i) It adds the important dimension of labor to the Q model, and shows that it is essentially important for this model's empirical relevance. It thus has the potential to re-energize the empirical exploration of the model, which has encountered some serious empirical setbacks over the years.

(ii) In terms of search and matching models, it makes several contributions: it is one of the very few papers that considers capital adjustment interacting with labor market frictions, showing the importance of this interaction for the understanding of hiring behavior; it quantifies the asset value of job-worker matches in the U.S. economy, a contribution that is important for the growing calibration work on these models; and it provides a link -- that is substantiated empirically -- between match asset values and stock prices.

(iii) For the production-based asset pricing model it gives a boost and much greater empirical relevance. The inclusion of labor, structural estimation, and decomposition of stock prices into labor and capital components are all new. More specifically, note the ability to match the stock price data (in both first and second moments).

2. Evaluating the empirical performance of the search and matching model and its business cycle implications.

The background for this line of work is the fact that the picture of U.S. labor market dynamics and its implications for the study of business cycles are disturbingly opaque. There are three, related issues of concern:

First, different empirical studies of U.S. gross worker flows and labor market dynamics over the past two decades have yielded contradictory findings. Reading these different studies, it is not easy to get a sense of what the key data moments are and how they compare with each other. Second, debates have emerged regarding the implications of these worker flows for the understanding of the business cycle. The "conventional wisdom" was that worker separations from jobs are the more dominant cyclical phenomenon than hiring of workers, and that therefore it is important to analyze the causes for separations or job destruction. In particular, it was believed that in order to study the business cycle it is crucial to understand the spikes and volatility of employment destruction. This view was challenged by the more recent claim that separations are roughly constant over the cycle, and that the key to the understanding of the business cycle is in the cyclical behavior of the job finding rate. Third, there is

disagreement as to how much the search and matching model -- a key model in this context -- can explain the data. A number of papers claim that the model does not fit the data well and that key patterns of the data are different from what the model focuses on.

In Yashiv (European Economic Review 2006, Scandinavian Journal of Economics 2007) I try to clarify the picture. I determine what facts can be established, what are their implications for the business cycle, and what remains to be further investigated. These papers re-examine both CPS data and the model to see whether it fits the data, what generates the fit, and where it fails.

On the data facts issue, the following are the key findings: key moments of the flows between the employment and unemployment pools are characterized; a set of clear business cycle facts emerges, including countercyclical and volatile hiring and separation rates, pro-cyclical job finding rates, and considerable volatility of both accessions and separations. On the business cycle implications, it turns out that both job finding and separation are key for the understanding of the cycle. On the fit of the search and matching model, there is a mixed answer. On the one hand, the model captures the persistence, volatility, and some of the co-movement in the data. It is shown that convex hiring costs and the appropriate stochastic process for separation shocks are needed for the fit. On the other hand, wage behavior is not captured. Moreover, the nature of the shocks leading to separations remains unclear. In terms of the model, the process generating separation rates merits further attention, possibly based on micro studies of productivity behavior.

There are two main contributions here: one is to clarify very confused data picture and model-data linkages picture. The second is the exploration of the economic mechanisms in operation in the context of business cycle research.

The former contribution is important as a key aspect of macroeconomic research is the study of the business cycle. The cycle is most clearly manifested in the labor market. Getting the labor market facts right is therefore an essential ingredient for any valid modelling of the cycle. Before the current contribution there was much disagreement in the literature on what the facts say. While the analysis in question does not resolve all of the difficulties, it establishes a significant set of facts.

The latter contribution pertains to the fact that for a long time the search and matching model was developed theoretically, disconnected from business cycle

facts. It is relatively recently that it was brought to the data, and then found lacking. My papers show on what dimensions the model does fit the data and what is the mechanism in operation. They also show where the model fails and therefore needs modification. The exploration of the economic mechanisms underlying these results, as undertaken here, was hitherto very limited.

Taken together these two dimensions of analysis provide macroeconomists with the labor market element of a dynamic, stochastic model that may be used in macroeconomic analysis.

In Yashiv (European Economic Review 2007) I offer a survey of this literature which places the above contributions in context.