

Labor Market Frictions, Human Capital Accumulation, and Consumption Inequality

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Abstract

We develop a frictional model of the labor market with stochastic human capital accumulation and incomplete markets. The stochastic process for human capital may be heterogeneous across workers as well as depend on the firm type where the worker is employed. We establish nonparametric identification of the model, and estimate it using matched employer-employee data from Germany. We provide a decomposition of lifecycle inequality in earnings and consumption resulting from heterogeneity in ability, heterogeneity in the rate of human capital accumulation, search frictions (the random allocation of similar workers to different jobs) and the interaction of human capital and search friction (a worker's history of job opportunities may differentially affect her human capital accumulation opportunities).

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